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No. 85-

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

CHEMICAL ENGINEERING CORPORATION, ROBERT M. WILFONG, RUDY WILFONG, AND LAWRENCE D. GORDON,

Petitioners,

v.

LAURENE O. PATERSON AND MULTI-TEC, INCORPORATED,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE MICHIGAN COURT OF APPEALS

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QUESTION PRESENTED

Petitioners, were held liable under Michigan trade secret law for using Respondents' information after the information had been published. It had been stipulated at trial that a *published* European Patent Application, filed by Respondent Paterson, disclosed all of Respondents' alleged trade secrets. The European Patent Application was published prior to the earliest alleged misappropriation by Petitioners. The Michigan Court of Appeals followed the law of a number of jurisdictions and upheld the trial court despite a conflict with the repeated pronouncements of this Court and other lower courts that Federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a patent. The question presented is:

Whether Petitioners could be held liable under State trade secret law for using information after the information was *completely disclosed* to the public by Respondents in a *published* European Patent Application or whether the State is preempted by Federal law from holding public information to be trade secret?

RULE 21.1 STATEMENT

All parties are the same as those before the Michigan Court of Appeals and Michigan Supreme Court. The action before the Lenawee County, Michigan Circuit Court was dismissed as to two additional defendants: Hillsdale Pump And Supply Company and Clymer's Geothermal Heating And Cooling. Their dismissal was not appealed.

RULE 28.1 STATEMENT

Chemical Engineering Corporation has no parent company, subsidiary or affiliate.

TABLE OF CONTENTS

	Page
OPINION BELOW	1
JURISDICTION	2
CONSTITUTIONAL AND STATUTORY LAW INVOLVED	2
STATEMENT OF THE CASE	3
A. Raising The Federal Question	3
B. Statement Of Facts	5
REASONS FOR GRANTING THE WRIT	8
I. A DEFENDANT CANNOT BE HELD LIABLE UNDER STATE TRADE SECRET LAW FOR USING INFORMATION PREVIOUSLY COMPLETELY DISCLOSED TO THE PUBLIC IN A PUBLISHED EUROPEAN PATENT APPLICATION BECAUSE FEDERAL LAW PREEMPTS A STATE FROM HOLDING THE PUBLIC INFORMATION TO BE TRADE SECRET	8
A. There Was No Dispute In This Case That The Information Held To Be Trade Secret Had Previously Been Completely Disclosed To The Public	8
B. The Holding Of The Michigan Court Of Appeals That Information Can Be Both Public And Protectable As A Trade Secret Follows The Law Of A Number Of Jurisdictions But Conflicts With Pronouncements By This Court And Other Jurisdictions	10
C. Federal Law Preempts A State From Protecting Public Information, Such As A Patent Publication, As Trade Secrets; Because Such Protection Is In Conflict With The Federal Patent System, The Constitution And The Patent Cooperation Treaty	14

1. Information Available To The Public In A Patent Publication Is In The Public Domain And Thus Cannot Be Trade Secret 15
2. Protecting Public Information As Trade Secrets Interferes With Federal Law By Discouraging Competition By Former Associates Or Employees 19
3. Protecting Public Information As Trade Secrets Provides A Disincentive To Use of The U.S. Patent System By Providing Equivalent Or Even Superior Protection 21
4. The Protection Of Public Information As Trade Secrets Does Not Protect Commercial Morality, Equity Or Confidential Relationships 23

II. CONCLUSION 27

APPENDIX 1a

Text of Constitutional and Statutory Law Involved 1a

Circuit Court of Lenawee County, Michigan:

Pretrial Statement (reprinted in part) 64a
Defendants' Post Trial Brief (reprinted in part) 66a
Defendants' Post Trial Reply Brief (reprinted in part) 75a
Opinion of June 10, 1983 (Opinion I) 79a
Opinion of September 26, 1983 (Opinion II) .. 93a
Judgment 97a

Court of Appeals of the State of Michigan:

Brief of Appellant (reprinted in part) 99a
Reply Brief of Appellant (reprinted in part) 106a
Opinion 112a

Supreme Court of the State of Michigan:

Brief Supporting Application For Leave To Appeal (reprinted in part) 131a

Order Denying Application For Leave To Appeal 145a

Verified Motion To Reconsider Denial Of Application For Leave To Appeal (reprinted in part) 147a

Order Denying Motion To Reconsider 150a

Supreme Court of the United States:

Order Extending Time To File Petition For Writ of Certiorari 152a

TABLE OF AUTHORITIES CITED

CASES: Page

Arco Industries Corp. v. Chemcast Corp., 633 F.2d 435, 208 U.S.P.Q. 190, (6th Cir. 1980) 15

Benton v. Ward, 59 Fed. 411, (C.C.N.D. Iowa 1894) 18

Brulotte v. Thys Co., 379 U.S. 29 (1964) 10, 20

Classic Instruments, Inc. v. VDO-Ango Instruments, Inc., 226 U.S.P.Q. 894, (Ore. Ct. App., May 22, 1985) 13

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) 10, 15

Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W. 2d 890, 220 U.S.P.Q. 811, (Minn. S.Ct. 1983) 12, 14, 16

Ethyl Gasoline Corporation v. United States, 309 U.S. 436 (1940) 10, 20

E. W. Bliss v. Struthers-Dunn, Inc., 408 F.2d 1108, 161 U.S.P.Q. 263, (8th Cir. 1969) 19

Ferrara v. Becton, Dickerson & Co., 223 U.S.P.Q. 682, (E.D.N.Y. Sept. 12, 1983) 16

Ferroline Corp. v. General Aniline and Film Corp., 207 F.2d 912, 99 U.S.P.Q. 240, (7th Cir. 1953) 14, 16

Financial Programs, Inc. v. Falcon Financial Services, 371 F. Supp. 770, 182 U.S.P.Q. 36, (D. Ore. 1974) 13

Frank M. Denison, Inc. v. Westmore Dental Arts, 212 U.S.P.Q. 601, (W.D. Pa. Jan. 15, 1981) 16

Franke v. Wiltschek, 209 F.2d 493, 99 U.S.P.Q. 431, (2nd Cir. 1953) 12, 13, 21

Fuels Research Corp. v. Husky Oil Co. of Delaware, 183 U.S.P.Q. 403, (D. Colo. June 28, 1974) .. 16

Gilson v. Republic Of Ireland, 606 F. Supp. 38, 223 U.S.P.Q. 956, (D. D.C. 1984) 682 F.2d 1022 14

Table of Authorities Continued

Page

Goldberg v. Medtronic, Inc., 686 F.2d 1219, 216 U.S.P.Q. 89, (7th Cir. 1982) 12

Goldstein v. California, 412 U.S. 546, (1973) 10, 15

Great Lakes Carbon Corp. v. Continental Oil, Co., 219 F. Supp. 468, 138 U.S.P.Q. 613, (W.D. La. 1963) 16

Haglund v. Dow Chemical Co., 218 U.S.P.Q. 55, (E.D. Col. Apr. 7, 1982) 16

Hayes-Albion v. Kuberski, 421 Mich. 170, 364 N.W. 2d 609, (Mich. 1984) 11

Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W. 2d 763, 117 U.S.P.Q. 466, (Tex. 1958) 13

International News Service v. Associated Press, 248 U.S. 215, 250 (1950) (Brandeis, J., dissenting) 10, 15

Jet Spray Cooler, Inc. v. Crampton, 377 Mass. 159, 385 N.E. 2d 1349, 203 U.S.P.Q. 363 (Mass. S.Ct. 1979) 21

Jones v. Ulrich, 342 Ill. App. 16, 95 N.E. 2d 113, 87 U.S.P.Q. 331, (1950) 13

Kamin v. Kuhnau, 232 Ore. 139, 374 P.2d 912, 135 U.S.P.Q. 133, (Ore. 1962) 12, 13, 21, 24

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) 9, 10, 15, 16, 23

Kinnear-Weed Corp. v. Humble Oil & Refining Co., 150 F. Supp. 143, 112 U.S.P.Q. 385, (E.D. Tex. 1956) 14, 16

Kubik, Inc. v. Hull, 56 Mich. App. 335, 224 N.W. 2d 80, 185 U.S.P.Q. 391 (1974) 4, 11, 17

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) 10, 15, 16, 25, 26

Lear Siegler, Inc. v. Ark-Ell Springs, Inc., 569 F.2d 286, 197 U.S.P.Q. 273, (5th Cir. 1978) 19

Table of Authorities Continued

Page

Lemelson v. Kellogg Co., 440 F.2d 986, 169 U.S.P.Q. 449, (2nd Cir. 1971) 14

Lyon v. Bausch & Lomb Optical Co., 119 F. Supp. 42, 52, 100 U.S.P.Q. 100, (W.D.N.Y. 1953) .. 16

M & T Chemicals, Inc. v. International Business Machines, 403 F. Supp. 1145, 188 U.S.P.Q. 568 (S.D.N.Y. 1975) 14, 16

Materials Development Corp. v. Atlantic Metals, Inc., 172 U.S.P.Q. 595, (Mass. S.Ct. Nov. 11, 1971) 25

Midland-Ross Corp. v. Sunbeam Equipment Corp., 316 F. Supp. 171, 167 U.S.P.Q. 460, (W.D. Pa. 1970) 14, 15, 16

Mine Safety Co. v. Electric Storage Battery, 405 F.2d 901, 160 U.S.P.Q. 413, (CCPA 1969) 15

Motorola, Inc. v. Fairchild Camera & Instrument Co., 366 F. Supp. 1173, 177 U.S.P.Q. 614, (D. Ariz. 1973) 14, 15

Northern Pacific Railway v. United States, 356 U.S. 1 (1958) 10, 20

O'Brien v. Westinghouse Electric Co., 293 F.2d 1, 130 U.S.P.Q. 79, (3rd Cir. 1961) 14, 15

Rototron Corp. v. Lake Shore Burial Vault Co., Inc., 712 F.2d 1214, 220 U.S.P.Q. 169, (7th Cir. 1983) 16

Ruckelhaus v. Monsanto Co., 467 U.S. ___, 81 L.Ed 2d 815, (1984) 11

Scharmen v. Carrollton Manufacturing, Co., 525 F.2d 95, 187 U.S.P.Q. 736 (6th Cir. 1975) 15, 16

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) 10, 15

Sikes v. McGraw-Edison Co., 671 F.2d 150, 217 U.S.P.Q. 1086 (5th Cir. 1982) 13

Table of Authorities Continued

Page

Standard Brands, Inc. v. Zumpe, 264 F. Supp. 254, 152 U.S.P.Q. 731, (E.D. La. 1967) 12

Stanley Aviation Corp. v. United States, 196 U.S.P.Q. 612, (D. Col. Aug. 1, 1977) 16

Telex Corp. v. IBM Corp., 367 F.Supp. 258, 179 U.S.P.Q. 777 (N.D. Okla 1973) 20

Tempo Instrument, Inc. v. Logitek, Inc., 229 F. Supp. 1, 142 U.S.P.Q. 76, (E.D.N.Y. 1964) 14, 16

Timely Products Corp. v. Arron, 523 F.2d 288, 187 U.S.P.Q. 257, (2nd Cir. 1975) 14

Tower Manufacturing Co., Inc. v. Monsanto Chemical Works, 20 F.2d 386, (S.D.N.Y. 1927) 25, 26

United States v. Loew's, Inc., 371 U.S. 38 (1962) 10, 20

Van Products Co. v. General Welding And Fabricating Co., 419 Pa 248, 213 A2d 769, 147 U.S.P.Q. 221, (Pa 1958) 16

Verkamoff Holland B.V. v. Pipe Benders, Inc., 211 U.S.P.Q. 955, (D. Minn. Feb. 18, 1981). 16

Vulcan Detinning Co. v. American Can Co., 72 N.J. Eq 387, 67 A 339, (1907) 24

Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163, 162 U.S.P.Q. 321, (5th Cir. 1969) (Ga. law) 13

Wesley-Jessen, Inc. v. Reynolds, 182 U.S.P.Q. 135, (N.D. Ill. May 23, 1974) 16, 26

Zenith Radio Corporation v. Hazeltine Research, Inc., 395 U.S. 100 (1969) 10, 20

TREATIES, CONSTITUTIONAL AND STATUTORY LAW

U.S. Constitution, Art. I, § 8, Cl. 8 ..... 2, 10, 15, 19

15 U.S.C. § 1-7 ..... 2, 10

15 U.S.C. § 12-27 ..... 2, 10

28 U.S.C. § 1257(3) 2

Table of Authorities Continued

	Page
35 U.S.C. § 101-104, 111-112	3, 10, 19
Patent Cooperation Treaty, Art. 17, 19, 20, 22, 29, 55, 64	3, 18, 19
OTHER AUTHORITIES	
Injunctions to Protect Trade Secrets—The Goodrich and DuPont Cases, 51 Va. L.R. 917 (1965)	19
Milgrim on Trade Secrets § 2.06[1]; § 2.06[3]; § 2.07[2]; § 7.08[2] (1985)	12
Orenbuch, *Trade Secrets and The Patent Laws*, 52 J. P. O.S. 638 (1970)	23
5 Patent Law Perspectives § 16.2[5.2]	20
Restatement of Torts (First) Ch. 35, p. 540 (1938)	23
Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 George Washington Law Review, 927 (1974)	17, 19, 24

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

No. 85-

CHEMICAL ENGINEERING CORPORATION,
ROBERT M. WILFONG, RUDY WILFONG,
AND LAWRENCE D. GORDON,

Petitioners,

v.

LAURENE O. PATERSON AND MULTI-TEC, INCORPORATED,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE MICHIGAN COURT OF APPEALS

Petitioners Chemical Engineering Corporation, Robert M. Wilfong, Rudy Wilfong and Lawrence D. Gordon respectfully pray that a writ of certiorari issue to review the judgment and opinion of the Michigan Court Of Appeals, entered in the above-entitled proceeding on March 8, 1985.

OPINION BELOW

The opinion of the Michigan Court of Appeals has not been reported. It is reprinted in Appendix J. The Michigan Supreme Court denied an application to appeal in an order reprinted in Appendix L. The Michigan Supreme Court denied a motion to reconsider in an order reprinted in Appendix N.

JURISDICTION

A final judgment of the Michigan Court of Appeals was entered on March 8, 1985 affirming a judgment of the Circuit Court of Lenawee County, Michigan filed September 26, 1983 on Opinions of the Circuit Court issued on June 10, 1983 and modified on Sept. 26, 1983 reprints of which appear in Appendix E and Appendix F. A timely Application For Leave to Appeal the Judgment to the Michigan Supreme Court was filed and an Order of the Supreme Court of the State of Michigan denying Application For Leave To Appeal was entered on November 25, 1985. The Michigan Supreme Court entered an Order denying a timely Motion To Reconsider Denial Of Application For Leave To Appeal on January 28, 1986. Justice O'Connor of the United States Supreme Court signed an Order extending the time for filing this Petition For Certiorari to and including June 27, 1986. The orders of the Michigan Supreme Court and Justice O'Connor are reprinted in Appendix J, Appendix L and Appendix N.

The jurisdiction of this Court to review the judgment of the Michigan Court of Appeals is envoked under 28 U.S.C. 1257(3).

TREATIES CONSTITUTIONAL AND STATUTORY LAW INVOLVED

Constitution of the United States Article I, Section 8, Clause 8. Full text is reprinted in Appendix A.

15 U.S.C. §§ 1-7, Codifying Sherman Antitrust Act, July 2, 1890, 26 Stat 209, as amended.

15 U.S.C. §§ 12-27 and 29 U.S.C. § 52, Codifying Clayton Antitrust Act, October 15, 1914, Ch. 323, 38 Stat 730, as amended.

28 U.S.C. 1257(3).

35 U.S.C. § 101-104, 111-112, Codifying Patent Act, July 19, 1952, Ch. 950, 66 Stat 792, as amended.

Patent Cooperation Treaty, Done at Washington on June 19, 1970, amended on October 2, 1979 and modified on February 3, 1984, Articles 17, 19, 20, 22, 29, 55, 64.

STATEMENT OF THE CASE

A. RAISING THE FEDERAL QUESTION:

The Federal question in this case is: whether Petitioners could be held liable under State trade secret law for using information after the information was *completely disclosed* to the public by Respondents in a *published* European Patent Application or whether the State is preempted by Federal law from holding the public information to be trade secret?

This Federal question was raised repeatedly before the trial and appellate courts including at least as follows. Before the Lenawee County Circuit Court, the Federal question was raised in Defendants' Post Trial Brief, pp. 12, 16-17, 38-40 and 49 (Appendix C) and Defendants' Post Trial Reply Brief pp. 3-4 and 7-8 (Appendix D). (Defendants' Post Trial Briefs were submitted pursuant to Order of the Court. Court's Pre-Trial Statement, March 31, 1983, p. 5, Appendix B.

In its opinion, the Lenawee County Circuit Court found Petitioners liable for misappropriation of trade secrets for activities beginning some time after June 24, 1981 (Appendix E) and also held:

> "Although Paterson's trade secret information was not readily available to the public at the time the disclosure agreements were signed with Engineering, that secret information was available to the public

after June 24, 1981 following publication of Paterson's European patent application." (Opinion of Lenawee County Circuit Court, June 10, 1983, page 9, Appendix E).

The Federal question was presented to the Michigan Court of Appeals in Brief of Appellant, pp. 1-5 and 34-36 (Appendix H) and Reply Brief of Appellant pp. 1-4 and 13-14 (Appendix I). The Michigan Court of Appeals held:

> "Further, contrary to the contention of the Defendants, the publication of Plaintiffs' European patent application does not, *per se*, preclude a finding that Plaintiffs' process remained a secret. Under the ruling in *Kubik*, [*Inc. v. Hall*, 56 Mich. App. 335, 347, 224 N.W. 2d 80 (1974)] the publication of a patent application is only one of several factors to be considered in determining secrecy. The publication of the patent application in Europe is, in any event, of limited significance since Defendants admitted that they did not learn of the publication until after the institution of the present lawsuit. Therefore, any information regarding the nature of Plaintiffs' process must have come to Defendants through their confidential relationship with Plaintiffs. Moreover, there was no evidence presented at trial which would indicate that any other person or entity involved in water treatment processes was aware of Plaintiffs' European patent application or the information contained therein. The trial court's finding that Plaintiffs' process constituted a trade secret was thus clearly supported by substantial evidence in the record and we affirm that finding." Opinion of Michigan Court of Appeals, page 11 (Appendix J).

The Federal question was presented to the Michigan Supreme Court in Brief Supporting Application For Leave

To Appeal, pp. 3-5, 7-8 and 10-18 (Appendix K) and Verified Motion To Reconsider Denial Of Application For Leave To Appeal, pp. 3-4 (Appendix M).

B. STATEMENT OF FACTS

In 1979 and 1980, Laurene O. Paterson through her personal corporation, Multi-Tec, Inc. (hereinafter "PLAINTIFFS"), produced some water treatment units, and her associate Gerald Griewahn, installed several units. (Opinion dated June 10, 1983, hereinafter Opinion I, p. 1). During the Summer 1980, Griewahn severed connections with Multi-Tec and began manufacturing and selling the same treatment units. (Opinion I, pp. 2-3). Paterson sued and Griewahn was enjoined. (Opinion I, p. 3). The Court found:

> "Plaintiff's trade secret is the novel combination several features. It is the use of an air injector system such as the Dema valve properly adjusted to create and hold stable a colloid solution of extremely minute iron particles in water. Coupled with this, Filter Ag is then used for the removal of those particles through the neutralization of the negative charge of the colloid suspension.
>
> * * *
>
> The whole system here has been sold to members of the public. Any buyer or his assignee can take the system apart and duplicate the components. Probably the Dema valve would be the first to be uncloaked. Someone familiar with valves or injectors could get manufacturer's catalogues and go through them until he located which valve this system used" (PX 11)[1]

On December 15, 1980 Paterson filed an application for a European patent which disclosed in full her iron removal

[1] PX is used herein for Plaintiffs' Exhibit. DX is used herein for Defendants' Exhibit. T.T. is used herein for Trial Transcript.

process, (T.T. pp. 233-4) and in that application, referred to three prior United States patent applications, filed on December 14, 1979; May 2, 1980 and November 28, 1980. (DX H). The European patent application was published on June 24, 1981. (DX H). Defendants first became aware of Paterson's European patent in February or March, 1983. (Opinion I, p. 3).

Beginning April 11, 1980, Chemical Engineering signed an agreement with Paterson agreeing to hold Paterson's confidential information in confidence, installed test units and began negotiating a manufacturing and sales arrangement. (Opinion I, p. 2).

On December 10, 1980, Robert Wilfong and Lawrence Gordon signed individual agreements with Paterson to keep confidential and not to disclose or use any secret or confidential technology involved in the Paterson process for their own use (Opinion I, p. 2), and on January 6, 1981 Wilfong signed a consultant agreement incorporating the prior agreements. (Opinion I, p. 2).

On May 13, 1981, Chemical Engineering purchased from Multi-Tec twenty-five (25) of the Paterson iron removal devices which they sold with the permission of Multi-Tec, to the public on an unrestricted basis (Opinion I, p. 2; T.T p. 189).

At approximately the same time that Wilfong became a consultant to plaintiff, plaintiff became heavily involved in negotiations with Structural Fibers Corporation, which had been brought into the relationship by Chemical Engineering (T.T., pp. 241-242). Initially, defendants were involved in negotiations with Structural Fibers, however, as time passed, defendants were no longer invited to participate in plaintiff's meetings with Structural Fibers. (T.T. p. 241-4).

In order to protect themselves from what defendants thought would be their total exclusion from the iron re-

moval device market, defendants began investigating the possibility of marketing other iron-removal units. (T.T., p. 425-428). In furtherance of this plan, Robert Wilfong searched patents in the U.S. Patent Office and obtained a copy of a patent issued to John O. McLean on March 14, 1972. (T.T., p. 428-429). After several discussions, defendants signed an exclusive license agreement with McLean in July or August, 1981. (Opinion I, p. 2).

On August 6, 1981, Wilfong sent Paterson a letter terminating the Consulting Agreement. (P.X. 16). On August 14, 1981, Wilfong wrote Paterson indicating that Chemical Engineering was no longer interested in participating in negotiations regarding the Paterson process and that Chemical Engineering had become the exclusive licensee under U.S. Patent No. 3,649,532, John O. McLean's patent. (P.X. 17). Defendants, acknowledged that the confidentiality agreements with plaintiff would continue in full force and effect and would be honored by defendants in the future. (Opinion I, p. 2). Paterson accepted this reaffirmation of the Confidentiality Agreements without telling defendants that her European Patent application had been published over a month earlier. (D.X. H).

Subsequently to the termination of the consulting agreement with Paterson, Chemical Engineering began selling the MACCLEAN iron removal device. Multi-Tec alleged these sales to be a misappropriation of its trade secrets. (Complaint, Paragraphs 16-21). No evidence or testimony was given that Defendants did any act alleged to be misappropriation of Multi-Tec's information other than the sale of the MACCLEAN iron removal devices after Paterson's European Patent Application was published on June 24, 1981. Chemical Engineering alleged the MACCLEAN iron removal devices sold after August 14, 1981 to be *solely* based upon the technology of John O. McLean and U.S. Patent No. 3,649,532. (Opinion I, p. 5).

The trial court's first written opinion (Opinion I) was issued on June 10, 1983. (Appendix E). The trial court granted plaintiff $100,000 for one-half of development costs, $63,750 for loss of royalties on the 3,700 MacClean units sold by defendants; and $60,000 as "future damages". (Appendix E).

A second opinion (Opinion II) was entered by the trial court on September 28, 1983 pursuant to a motion to reopen trial by Defendants in which the trial court amended the original opinion. (Appendix F). The Michigan Court of Appeals on an appeal by Defendants-Appellants affirmed the holding of the trial court in an opinion filed March 8, 1985. (Appendix J).

A Judgment of the Supreme Court of the State of Michigan denying Application For A Leave To Appeal was entered on November 25, 1985. (Appendix L). The Michigan Supreme Court entered an Order denying Motion To Reconsider Denial Of Application For Leave To Appeal on January 28, 1986. (Appendix N).

REASONS FOR GRANTING THE WRIT

I. A DEFENDANT CANNOT BE HELD LIABLE UNDER STATE TRADE SECRET LAW FOR USING INFORMATION PREVIOUSLY COMPLETELY DISCLOSED TO THE PUBLIC IN A PUBLISHED EUROPEAN PATENT APPLICATION BECAUSE FEDERAL LAW PREEMPTS A STATE FROM HOLDING THE PUBLIC INFORMATION TO BE TRADE SECRET.

A. There Was No Dispute In This Case That The Information Held To Be Trade Secret Had Previously Been Completely Disclosed To The Public.

In this case, trade secrets were found to have been misappropriated, after they were made public in a published European patent application. The trial court ruled:

> "Although Paterson's secret information was not readily available to the public at the time the non-disclosure agreements were signed with Engineering, that secret information was available to the public after June 24, 1981, following publication of Paterson's European patent application." (Opinion of trial court, June 10, 1983, p. 9).

The earliest misappropriation alleged by Plaintiffs was after June 24, 1981. (Court of Appeals Opinion pp. 3-4)

Plaintiffs stipulated at trial that the European Patent Application disclosed all of the trade secret information with the exception of a brand name of a component.[2] There was no allegation in this case that the trade secret information was available to the public only by compiling diverse sources, since the European Patent Application revealed all of the trade secret information in a single document clearly written for the understanding of a person skilled in the technology involved.

Unlike *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), the instant petition does not question the protection

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[2] "* * * I'm willing to stipulate that there's a disclosure of the injector, disclosure of filter bed and the other things. There's no disclosure of the specific Dema valve by name, the type of valve that was described in here, and also the type of various types of filter beds which will attract and electrostatically attract colloidal particles was disclosed in here, and the fact that this injector makes colloidal particles containing iron in the water. It's all in here. To have her sit here and have her read this for the next hour or so is total waste of time. The document speaks for itself. I'm willing to stipulate to that.
The Court: All right.
Mr. Lundy: That all trade secrets we're talking about are in that document?
Mr. Harness: Everything is in here, there's no specific reference to the Dema valve, Dema injectors as such. The name Dema—
Mr. Lundy: That stipulation is accepted, Your Honor.
The Court: Very well." (T.T. p. 233-234)

of *secret* information by State trade secret law. This petition rather argues that a State cannot restrict the use of *public* information under State trade secret law.

B. The Holding Of The Michigan Court Of Appeals That Information Can Be Both Public And Protectable As A Trade Secret Follows The Law Of A Number Of Jurisdictions But Conflicts With Pronouncements By This Court And Other Jurisdictions.

This Court has repeatedly held that it is a policy of Federal Patent, Copyright and Antitrust law that information in the public domain cannot be removed therefrom by the States:

> "[Federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a patent." *Lear, Inc. v. Adkins*, 395 U.S. 653, 668 (1969); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. at 481.

This principle underlies the United States Patent Laws generally and forms the essence of the conditions of patentability of the patent laws. U.S. Const. Art I. § 8, Cl. 8; 35 U.S.C. 101-104; 111-112.[8] This Court's rulings on trade secret laws are in accord with this principle. In ruling on Ohio trade secret law, this Court stated:

> "By definition a trade secret has not been placed in the public domain." *Kewanee Oil*, 416 U.S. at 484.

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[8] Generally see: *Goldstein v. California*, 412 U.S. 546, 570 (1973); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *International News Service v. Associated Press*, 248 U.S. 215, 250 (1918) (Brandeis, J., dissenting); See *Northern Pacific Railway v. United States*, 356 U.S. 1 (1958); *United States v. Loew's Inc.*, 371 U.S. 38 (1962); *Ethyl Gasoline Corporation v. United States*, 309 U.S. 436 (1940); *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). *reh. den.* 379 U.S. 985; 15 U.S.C. § 1-7, 12-27.

This Court similarly stated in *Ruckelhaus v. Monsanto Co.*, 467 U.S. ___, 81 L.Ed 2d 815, 832 (1984):

> "Because of the intangible nature of a trade secret, the extent of the property right therein is defined by the extent to which the owner of the secret protects his interest from disclosure to others. [citations omitted] Information that is public knowledge or that is generally known in an industry cannot be a trade secret. [citation omitted] If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information or otherwise publicly discloses the secret, his property right is extinguished."

Michigan trade secret law as applied in this case conflicts with this principle.

The Michigan Supreme Court in *Hayes-Albion v. Kuberski*, 421 Mich. 170, 364 N.W. 2d 609, 615 n.4 (Mich. 1984), recently ruled that various factors including public knowledge are to be considered in determining whether information is trade secret with the weight attached to each factor varying on a case by case basis. See also, *Kubik, Inc. v. Hull*, 56 Mich. App. 355, 224 N.W. 2d 80, 185 U.S.P.Q. 391 (Mich. App. 1974). The Michigan Court of Appeals in following that rule in the instant litigation held:

> "Furthermore, contrary to the contention of the Defendants, the publication of Plaintiffs' European patent application does not, *per se*, preclude the finding that Plaintiffs' process remained a secret. Under the rule in *Kubik* the publication of a patent application is only one of several factors to be considered in determining secrecy. The publication of the patent application in Europe is, in any event, of limited significance since Defendants admitted that they did not learn of the publication until after the institution of the present lawsuit. Therefore, any information regarding the nature of Plaintiffs' process must have

> come to Defendants through their confidential relationship with Plaintiff. Moreover, there was no evidence presented at trial which would indicate that any other person or entity involved in water treatment processes was aware of Plaintiffs' European patent application or the information contained therein. The trial court's finding that Plaintiffs' process constituted a trade secret was thus clearly supported by substantial evidence in the record, and we affirm that finding." (Court of Appeals Opinion p. 11, Appendix p. 137).

The conflict between the Michigan courts and this Court is repeated among various jurisdictions and authorities.

The leading treatise on trade secret law *Milgrim On Trade Secrets* supports the Michigan Court Of Appeal's position that information can be both publicly known at the time of an alleged misappropriation and protectible as trade secret or confidential information, at least insofar as information that is published in something other than a United States patent. *Milgrim on Trade Secrets* § 2.06[1] pp. 2-73, 2-79, § 2.06[3] pp. 2-86 - 2-93; § 2.07[2] pp. 2-129-2-131; 7.08[2] pp. 7-202 - 7.209 (1985).

Some of the leading cases that support this position are: *Franke v. Wiltschek*, 209 F.2d 493, 495, 99 U.S.P.Q. 431, 433, (2nd Cir. 1953) (N.Y., N.J. and Mass law) (Trade secrets disclosed in expired patent and publicly marketed product), *Kamin v. Kuhnau*, 232 Ore. 139, 374 P.2d 912, 916-921, 135 U.S.P.Q. 133, 136-140, (Ore. 1962) (Trade secrets disclosed in patent and marketed product); *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1227-1228, 216 U.S.P.Q. 89, 94-95 (7th Cir. 1982) (Minn. law) (Trade secrets disclosed in European patent. Contra: *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W. 2d 890, 897 n.5, 220 U.S.P.Q. 811, 816 n.5, (Minn. S. Ct. 1983)); *Standard Brands, Inc. v. Zumpe*, 264 F.Supp. 254, 262 n.15, 152 U.S.P.Q. 731, 736 n.15, (E.D. La. 1967) (Trade secret

or confidential information available elsewhere); *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163, 172-173, 162 U.S.P.Q. 321, 328-329 (5th Cir. 1969) (Ga. law) (Trade secret in publicly marketed product); *Hyde Corp. v. Huffines*, 158 Tex 566, 314 S.W. 2d 763, 774-775, 117 U.S.P.Q. 466, 468-469, (Tex. 1958) Cert. den. 358 U.S. 898 (1958) (Trade secrets disclosed in patent); *Jones v. Ulrich*, 342 Ill. App. 16, 95 N.E. 2d 113, 119, 87 U.S.P.Q. 331, 335, (1950). (Confidential information/trade secret disclosed in publication or abandoned to general public).[4]

Typical expressions of the rule followed in these cases are the following:

> "Where defendants obtain confidential information means of a confidential relationship, they shall be held accountable for its use to their own advantage at the expense of the rightful possessor.
>
> * * *
>
> It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiff's marketed product." *Franke*, 209 F.2d at 495.

and "The decree proscribes only against the use of ideas acquired in the course of the confidential relationship. The fact that coincidentally the defendants' use of these ideas may also constitute an infringement of plaintiff's patent is immaterial." *Kamin*, 374 P.2d at 922.

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[4] Other later cases supporting the Michigan courts' position are: *Sikes v. McGraw-Edison Co.*, 671 F.2d 150, 151, 217 U.S.P.Q. 1086 (5th Cir. 1982), *Cert. den.*, 458 U.S. 1108 (1982) (Tex. law) (Relying on *Hyde Corp.* and *Water Services*); *Financial Programs, Inc. v. Falcon Financial Services*, 371 F.Supp. 770, 777, 182 U.S.P.Q. 36, 40 (D. Ore. 1974) (Relying on *Kamin*); *Classic Instruments, Inc. v. VDO-Ango Instruments, Inc.*, 226 U.S.P.Q. 894, 904, (Ore. Ct. App., May 22, 1985) (Relying on *Kamin* and *Franke*).

The following cases support the opposite position that information cannot be both generally known and protectable as trade secrets or information subject to a confidential relationship: *Ferroline Corp. v. General Aniline and Film Corp.*, 207 F.2d 912, 921, 99 U.S.P.Q. 240, 246 (7th Cir. 1953) Cert. den. 347 U.S. 953 (1954), rehrg. den. 347 U.S. 979 (1954); (N.J. law); *Midland-Ross Corp. v. Sunbeam Equipment Corp.*, 316 F. Supp. 171, 177, 167 U.S.P.Q. 460, 464 (W.D. Pa 1970) *aff'd.* 435 F.2d 159, 167 U.S.P.Q. 422 (3rd Cir. 1970); *Lemelson v. Kellogg Co.*, 440 F.2d 986, 987, 169 U.S.P.Q. 449, 449-450 (2nd Cir. 1971).[5]

C. Federal Law Preempts A State From Protecting Public Information, Such As A Patent Publication, As Trade Secrets; Because Such Protection Is In Conflict With The Federal Patent System, The Constitution And The Patent Cooperation Treaty.

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[5] See also: *Motorola, Inc. v. Fairchild Camera & Instrument Co.*, 366 F. Supp. 1173, 1184, 177 U.S.P.Q. 614, 620-621 (D. Ariz. 1973) (Cal. law); *Tempo Instrument, Inc. v. Logitek, Inc.*, 229 F. Supp. 1, 3, 142 U.S.P.Q. 76, 77 (E.D.N.Y. 1964); *Gilson v. Republic of Ireland*, 606 F. Supp. 38, 43, 48, 223 U.S.P.Q. 956, 957 (D. D.C. 1984) 682 F.2d 1022; *M & T Chemicals, Inc. v. International Business Machines*, 403 F.Supp. 1145, 1149, 188 U.S.P.Q. 568 (S.D.N.Y. 1975), *aff'd.* 542 F.2d 1165 (2nd Cir. 1976), *cert. dismissed* 429 U.S. 1030 (1976); *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F. Supp. 143, 159, 112 U.S.P.Q. 385, 397 (E.D. Tex 1956) *aff'd.* 259 F.2d 398, 119 U.S.P.Q. 10 (5th Cir. 1958) rehrg. den. 266 F.2d 352 (5th Cir. 1959), Cert. den. 361 U.S. 903 (1959), rehrg. den. 363 U.S. 857 (1960), Clerical error corrected, 296 F.2d 215 (5th Cir. 1961), Cert den. 368 U.S. 890 (1961), rehrg. den. 368 U.S. 936 (1961), disqual. hrg. ord. 403 F.2d 437 (5th Cir. 1968), disqual. pet. den. 324 F. Supp. 1371 (S.D. Tex. 1969) aff'd. 441 F.2d 631 (5th Cir. 1971), (150 F. Supp. 143 aff'd.) 504 F.2d 565 (5th Cir. 1974); *O'Brien v. Westinghouse Electric Co.*, 293 F.2d 1, 13, 130 U.S.P.Q. 79, 88 (3rd Cir. 1961). *Timely Products Corp. v. Arron*, 523 F.2d 288, 304; 187 U.S.P.Q. 257, 269 (2nd Cir. 1975); *Electro-Craft Corp.*, 332 N.W. at 897 n.5.

1. Information Available To The Public In A Patent Publication Is In The Public Domain And Thus Cannot Be Trade Secret.

The patent laws 35 U.S.C. § 1 *et seq.* represent an unchallenged exercise of the clear power of Congress under Article I, Section 8, Cl. 8 of the Constitution.

A state law which clashes with the objectives of the patent law by setting the policies of the patent laws at naught or denying the benefits of the patent laws is precluded by Federal law. *Kewanee Oil Co.* 416 U.S. at 479-480. It is a policy of the patent laws that information in the public domain cannot be removed therefrom by the States and that ideas in general circulation are in the public domain unless protected by a patent. *Lear, Inc.*, 395 U.S. at 668; *Kewanee Oil Co.*, 416 U.S. at 481.[6] It is a corollary of this statement that ideas disclosed by a patent enter general circulation and are placed in the public domain when the patent is granted. This is not a function of the granting of the patent, but rather its publication. *Mine Safety Co. v. Electric Storage Battery Co.*, 405 F.2d 901, 902 n. 1, 160 U.S.P.Q. 413, 414 n. 1 (CCPA 1969), *Motorola, Inc.*, 366 F.Supp. at 1186-1187.[7]

It logically follows that when a patent is published and its content enters general circulation, any trade secrets published are destroyed. A number of courts have so ruled. *Midland-Ross Corp.*, 316 F.Supp. at 177; *Scharmen*, 525 F.2d at 99; *O'Brien*, 293 F.2d at 13; *Motorola, Inc.*, 366

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[6] See also *Goldstein* 412 U.S. at 570-571, *Sears, Roebuck & Co.*, 376 U.S. at 231; *Compco Corp.*, 376 U.S. at 237-238; *International News Service*, 248 U.S. at 250.

[7] See also *Scharmen v. Carrollton Manufacturing Co.*, 525 F.2d 95, 99, 187 U.S.P.Q. 736, 739 (6th Cir. 1975); *O'Brien*, 293 F.2d at 13, *Arco Industries Corp. v. Chemcast Corp.*, 633 F.2d 435, 443, 208 U.S.P.Q. 190, 196 (6th Cir. 1980); *5 Patent Law Perspectives* 16.2[2.1] p. 16-19 n.28.

F. Supp. at 1188; *Tempo Instrument, Inc.*, 229 F.Supp. at 3.[8]

Similarly, a trade secret disclosed in a foreign patent or other publication of comparable scope to a patent (hereinafter "patent publication") is destroyed at the time of issuance or publication, *Scharmen*, 525 F.2d at 99; *Midland-Ross Corp.* 316 F. Supp. at 177; *Van Products Co.* 213 A2d at 778-779; *Motorola, Inc.*, 336 F. Supp. at 1186.[9]

State trade secret laws, however, have not universally followed this principle. As one author has stated:

> "[B]ecause the definition of what is a 'trade secret' varies so widely that a particular state denominates a given legal doctrine as 'trade secret' law does not guarantee that that doctrine avoids impermissible (according to *Lear* and *Kewanee*) protection of things 'in

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[8] See also: *Rototron Corp. v. Lake Shore Burial Vault Co., Inc.* 712 F.2d 1214, 1215, 220 U.S.P.Q. 169, 170 (7th Cir. 1983), *Lyon v. Bausch & Lomb Optical Co.*, 119 F.Supp. 42, 52, 100 U.S.P.Q. 100, 108 (W.D.N.Y. 1953) affd. in pertinent part 224 F.2d 530, cert den. 350 U.S. 911 (1955) rehrg. den. 350 U.S. 955, (1956); *Van Products Co. v. General Welding And Fabricating Co.*, 419 Pa 248, 213 A2d 769, 779, 147 U.S.P.Q. 221, 228 (Pa 1958); *M & T Chemicals, Inc. v. IBM Corp.*, 403 F. Supp. at 1149; *Great Lakes Carbon Corp. v. Continental Oil, Co.*, 219 F. Supp. 468, 503-504, 138 U.S.P.Q. 613, 641 (W.D. La. 1963), aff'd. 345 F.2d 175, (5th Cir. 1965); cert. den. 382 U.S. 905 (1965); *Wesley-Jessen Inc. v. Reynolds*, 182 U.S.P.Q. 135, 145 (N.D. Ill. May 23, 1974), *Frank M. Denison, Inc. v. Westmore Dental Arts*, 212 U.S.P.Q. 601, 603, (W.D. Pa. Jan. 15, 1981); *Ferrara v. Becton, Dickerson & Co.*, 223 U.S.P.Q. 682, 683 (E.D.N.Y. Sept. 12, 1983), *Kinnear-Weed Corp.*, 150 F. Supp. at 159; *Ferroline*, 207 F.2d at 921; *Stanley Aviation Corp. v. United States*, 196 U.S.P.Q. 612, 617, (D. Col. Aug. 1, 1977); *Haglund v. Dow Chemical Co.*, 218 U.S.P.Q. 55, 70 (E.D. Col. Apr. 7, 1982);

[9] *Electrocraft Corp.*, 332 N.W. 2d at 897 n. 5; *Fuels Research Corp. v. Husky Oil Co. of Delaware*, 183 U.S.P.Q. 403, 407 (D. Colo. June 28, 1974); *Verkamoff Holland B.V. v. Pipe Benders, Inc.*, 211 U.S.P.Q. 955, 980 (D. Minn. Feb. 18, 1981) aff'd. 696 F.2d 608, 217 U.S.P.Q. 32 (8th Cir. 1982).

> reality a part of the public domain', a kind of protection directly contrary to federal policy." (citation omitted) Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 George Washington L. Rev., 927, 939 (1974).

The Michigan Court of Appeals in the instant litigation applied a definition of trade secrets that does not preclude protection of information in the public domain as trade secrets. The Michigan Court Of Appeals held that the publication of a European patent application disclosing to the public the trade secrets at issue was not significant in that publication was only one factor to consider and did not prove actual knowledge by the industry:

> "Further, contrary to the contention of the Defendants, the publication of Plaintiffs' European patent application does not, per se, preclude a finding that Plaintiffs' process remained a secret. Under the ruling in *Kubik*, [Inc. v. Hull, 56 Mich. App. 335, 347, 224 N.W. 2d 80 (1974)] the publication of a patent application is only one of several factors to be considered in determining secrecy. The publication of the patent application in Europe is, in any event, of limited significance since Defendants admitted that they did not learn of the publication until after the institution of the present lawsuit. Therefore, any information regarding the nature of Plaintiffs' process must have come to Defendants through their confidential relationship with Plaintiffs. Moreover, there was no evidence presented at trial which would indicate that any other person or entity involved in water treatment processes was aware of Plaintiffs' European patent application or the information contained therein. The trial court's finding that Plaintiffs' processes constituted a trade secret was thus clearly supported by substantial evidence in the record and we affirm that

finding." Opinion of Michigan Court of Appeals, page 11).

In *Benton v. Ward*, 59 Fed. 411, 413 (C.C. N.D. Iowa 1894) a court applied this same reasoning to a U.S. patent:

> "Many an invention and many an idea of value are doubtless to be found in the records of the patent office, but, so far as public actual knowledge thereof is concerned, they might as well be nonexistent."

The standard followed by the *Benton* court and in the instant litigation is based upon a legal fiction: a presumption that patent publications are so inaccessible as to be generally unknown. This legal fiction conflicts with the purposes of the patent laws to make inventions available to the public and ignores modern industrial and scientific practice. United States and foreign patent publications are today available through computerized data bases, technical indicies, public and private patent search organizations, public search facilities, patent and technical subscription services, periodicals, and many other information distribution networks. This is in part a result of the interrelationship between the United States and Foreign Patent Offices under the Patent Cooperation Treaty, under which international publications are published in English, two copies of each publication are transmitted to the United States Patent Office, and the United States and other contracting states (the European countries under the European Patent convention being a contracting state) have agreed that published European Patent applications and other publications are to be given the same effect as a published United States patent in the United States. Patent Cooperation Treaty, June 19, 1970 amended October 2, 1979, modified February 3, 1984, Art. 17, 19, 20, 22, 29, 55, 64.

The decision by the Michigan Court of Appeals in the instant litigation thus conflicts with Federal patent policy

under the Patent Laws and the Constitution, with the Patent Cooperation Treaty and with the actual availability of patent publications. U.S. Const., Art. I, § 8; 35 U.S.C. 101-104, 111-112; Patent Cooperation Treaty, Art. 17, 19, 20, 22, 29, 55, 64.

2. Protecting Public Information As Trade Secrets Interferes With Federal Law By Discouraging Competition By Former Associates Or Employees.

The free use of public knowledge is vital to the United States and the purposes for which the United States Patent System was created, since freely available public knowledge fosters competition leading directly to material progress. Restricting use of public information by declaring it secret or confidential as to persons formerly associated with alleged secret holders degrades competition by putting former associates or employees at risk of liability for any competitive activity. Unlike non-competition agreements, this liability is not limited in scope or duration since according to courts that follow this approach, "agreements[s] not to disclose information, unlike a covenant not to compete, cannot be challenged as an unreasonable restraint of trade." *Lear Siegler, Inc. v. Ark-Ell Springs, Inc.*, 569 F.2d 286, 289, 197 U.S.P.Q. 273, 275 (5th Cir. 1978).

In a new technology, law protecting trade secrets, after they become public knowledge, prevents former employees or associates from competing as a result of their having learned the public information when it was secret. One court has described this effect as: "a sword to be used by employers to retain employees by the threat of rendering them substantially unemployable in the field of their experience should they decide to resign." *E. W. Bliss v. Struthers-Dunn, Inc.*, 408 F.2d 1108, 1112-1113, 161 U.S.P.Q. 263, 266 (8th Cir. 1969). See *Stern*, supra at 972-974, 983-986 and Injunctions To Protect Trade Secrets - The Goodrich and DuPont cases, 51 Va L. R. 917, 921

(1965). Third parties are discouraged from competing by their inability to hire persons having experience with the technology, even though the technology is publicly known. This "chilling effect" on the entry of competitors continues indefinitely until a competitor takes the risk of entering the field without experienced personnel.

Among competitors, this "chilling effect" could provide effective control over a particular technology broader and for a longer duration than could be obtained by patenting the technology. Any extension of the patent grant is contrary to the Patent Laws and may be a violation of the Federal Antitrust Laws.[10]

Aside from this effect on competition, the legal protection of public information on the basis of its past secrecy can also directly effect competition by the deliberate placement of former employees with potential competitors. Such placement of former employees can neutralize the ability of a potential competitor to utilize a publicly known new technology. The potential competitor after hiring the former employee, is at risk of a trade secret suit if it utilizes the new technology unless it can prove it learned the new technology from public sources and not the new employee. Since it is very difficult to prove where knowledge was obtained, years later in litigation the potential competitor stands a good chance of loosing a trade secret misappropriation suit. Trade secret litigation can yield an award of damages disproportionate to actual profits, thus potential competitors are well deterred from entering the new field of technology. *5 Patent Law Perspectives* § 16.2[5.2] pp. 16-56 - 16-57.[11]

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[10] Generally see: *Northern Pacific Railway v. United States*, 356 U.S. 1 (1958); *United States v. Loew's Inc.*, 371 U.S. 38 (1962); *Ethyl Gasoline Corporation v. United States*, 309 U.S. 436 (1940); *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *Brulotte v. Thys Co.*, 379 U.S. 29 (1964). *reh. den.* 379 U.S. 985.

[11] Commenting on *Telex Corp. v. IBM Corp.*, 367 F.Supp. 258, 179

This neutralization of potential competitors is not limited in time. A number of courts have held that once a person learns "trade secret" information, he may never put that information to his own use even though the rest of the world can freely use the same information. *Franke*, 209 F.2d at 496; *Kamin*, 374 P.2d at 921-922.

The protection of publicly disclosed information as trade secrets is thus anticompetitive and undercuts the United States Patent system.

3. Protecting Public Information As Trade Secrets Provides A Disincentive To Use Of The U.S. Patent System By Providing Equivalent Or Even Superior Protection.

Protecting public information as trade secrets, interferes with the patent system by establishing another way to protect information after the information becomes publicly known. A direct disincentive on filing patent applications under the United States Patent Laws is presented by law under which a published patent application does not destroy trade secrets fully disclosed within the application.[12]

An example of a disincentive to use of the U.S. patent system is the following. An inventor devises a new product, such as a new drug formulation, which includes significant trade secrets and is patentable. The inventor's United States competitors cannot manufacture in the United States because of trade secret agreements.

The inventor can obtain appropriate foreign patents and prevent foreign manufacturers from manufacturing his

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U.S.P.Q. 777 (N.D. Okla 1973) *aff'd. in part*, 510 F.2d 894, 184 U.S.P.Q. 521, (10th Cir. 1975) cert. dismiss, 423 U.S. 802 (1975) and on *Jet Spray Cooler, Inc. v. Crampton*, 377 Mass. 159, 385 N.E. 2d 1349, 203 U.S.P.Q. 363 (Mass. S.Ct. 1979).

[12] It would appear that the Michigan Court of Appeals holding in this case may not go so far as to hold that U.S. patents do not destroy trade secrets, unlike some cases in other jurisdictions which have so held. *Franke*, 209 F.2d at 495, *Kamin*, 374 P.2d at 922.

product without his permission. By his trade secret and confidentiality agreements, he can keep those in the United States from manufacturing, using and selling his invention at least insofar as he can litigate or threaten litigation in jurisdictions following the approach of the Michigan Court of Appeals in this action. The inventor's "protection" in the United States would not be limited by patent claims or prior art or an expiration date.

Under Michigan law as applied in the instant case, foreign patents, would have no effect on the trade secrets. Thus, the benefits of a U.S. patent would be of less consequence to an inventor, than his trade secret and superfluous in many instances. In contrast to a U.S. patent, trade secret rights would be unlimited both geographically and in duration. The inventor clearly would follow his best interest and not obtain a U.S. patent.

Similarly, under Michigan law as applied in the instant case, U.S. employees could remain bound indefinitely on trade secrets in a process invention patented and practiced only in foreign countries; even though products of the process were sold in the U.S.

Furthermore, employers could routinely disclose to employees, under confidentiality agreements, the contents of foreign patent applications, whether of their own origin or not, thereby protecting an entire body of public knowledge.

Lastly, a foreign inventor has a disincentive to practice his invention in the U.S., since he cannot rely upon his published foreign patent and must compete in the United States market wary of any trade secret agreements executed prior to his entry into the U.S. market.

As these examples indicate, any distinction in trade secret law between the effect of U.S. and foreign patent publications undercuts U.S. patent laws and provides a disincentive to use of the U.S. patent system.

4. The Protection Of Public Information As Trade Secrets Does Not Protect Commercial Morality, Equity Or Confidential Relationships.

The purpose of trade secret law is the maintenance of standards of commercial ethics and the encouragement of invention. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. at 481. The authors of the first *Restatement of Torts* stated:

> "[T]he tendency of the law, both legislative and common, has been in the direction of enforcing increasingly higher standards of fairness or commercial morality in trade." Ch. 35, p. 540 (1938).

Protecting information that is actually secret prevents misappropriators from unethically obtaining an unfair advantage over third parties at the "secret" holder's expense. Protecting information that is not secret, but rather public, does not prevent alleged misappropriators from obtaining an unfair advantage over others, since all others have the same access to the public information. Protecting public information rather allows the "secret" holder to place his exemployees or exassociates at an disadvantage in comparison to the rest of the industry. The issue is not the exemployee's or exassociate's commercial morality but rather the morality of the "secret" holder:

> "Under our current ideas of morality, where one agrees to accept information in secret and then proceeds to divulge the secret to the detriment of the disclosee, we hold the breach to be immoral if the "secret" has a special character that distinguishes it from common law knowledge. We do not hold the breach to be immoral where the "secret" information is in fact generally known to the public or can easily be ascertained, rather, the odium is upon the discloser for not knowing that his "secret" is no secret at all, or where he is aware of that fact, for attempting to perpetuate a fraud on the disclosee." Orenbuch,

"Trade Secrets And The Patent Laws", 52 J.P.O.S. 638, 654-655 (1970).

Cases reciting a higher standard of "commercial morality" emphasize a breach of confidence reposed in the defendant, rather than the existence of trade secrets. As the court stated in, *Vulcan Detinning Co. v. American Can Co.*, 72 N.J. Eq 387, 67 A 339, 343 (1907):

> "[T]oo much emphasis has perhaps been placed upon the element of absolute secrecy in the process, and that not enough stress has been laid upon the inequitable character of the defendant's conduct in making a use of such process that was inimical to the complaint's interest. * * * [T]he secrecy with which a court of equity deals is not necessarily that absolute secrecy that inheres in discovery, but that qualified secrecy that arises from mutual understanding, and that is required alike by good faith and good morals." (cited with approval in *Kamin*, 374 P.2d at 918.

In *Kamin* and similar cases, "commercial morality" and "secrecy" are legal fictions and a "breach of confidence" is a euphemism for breach of company loyalty, that is, breach of a duty not to compete.

This is a badly misplaced duty absent a fairly negotiated non-competition agreement. It is not proper for the courts to protect the status quo in the name of commercial morality to the detriment of ethical competition and the U.S. patent system. See *Stern*, *supra* p. 970-972.

Some courts justify the protection of public information as trade secrets, on the basis that it is not the invention that is being protected but rather the confidential relationship. In other words, if there was once a secret or confidentiality then there is, indefinitely, a confidential relationship. This has been referred to as trade secret estoppel, a counter-part of the former equitable doctrine of patent licensee estoppel:

> "If it appears that [the information] has been obtained through disclosures * * * in defiance of his contract, it might make no difference that [the information] was a part of the prior art, because there would be an estoppel as between these parties, which would prevent the defendant from questioning that the process was secret, and would prevent its use by the defendant. I can see much similarity in this respect between a secret process and a patent". *Tower Manufacturing Co., Inc. v. Monsanto Chemical Works*, 20 F.2d 386, 387, (S.D.N.Y 1927) see also *Materials Development Corp. v. Atlantic Metals, Inc.*, 172 U.S.P.Q. 595, 611 (Mass. Super.Ct. Nov. 11, 1971).

There is even less support for trade secret estoppel protection of a confidential relationship than there was for patent licensee estoppel. In *Lear, Inc.*, 395 U.S at 670, the United States Supreme Court eliminated patent licensee estoppel because it opposed "the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain." The Court did so despite arguments that patent licensee estoppel was necessary to support the principle that contract law forbids a purchaser from repudiating his promises simply because he later becomes dissatisfied with the bargain he has made and despite the fact that under licensee estoppel the licensee may contest validity of the patent if he continues to pay royalties, *Lear, Inc.*, 395 U.S. at 673.

Trade secret estoppel protection of a confidential relationship in public information is opposed to:

> "The important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain." *Lear, Inc.*, 395 U.S. at 670.

Trade secret estoppel does not have support in contract law, which requires additional compensation to support even a limited non-competition agreement. In trade secret estoppel there is no requirement that the former employee or associate have received anything more than ordinary compensation in exchange for the loss of the right to use particular public information for an indefinite period. Unlike patent licensee estoppel, the party bound by trade secret estoppel may not contest the status of the information since the former employee or associate remains bound even after the information becomes freely available to the public. *Tower*, 20 F.2d at 387.

Protection of a confidential relationship in former secrets made public is also not supported by the concept of a confidentiality. If secrecy is lost there is no longer a confidential relationship, since there is no longer any confidentiality. *Wesley-Jessen*, 182 U.S.P.Q. at 145. If a former employee or associate destroyed the confidentiality by his own wrongdoing he remains liable for breach of the confidential relationship, however, if the confidentiality was already destroyed by other events, such as in this litigation by the deliberate actions of the secret holder, then no breach of the confidential relationship can occur after it is destroyed.

None of this denies the trade secret holder the benefits of the confidential relationship. The former employee or associate is bound only as long as confidentiality exists. A trade secret holder assumes the risk of destruction of his trade secret and a confidential relationship based upon that trade secret by maintaining the information as trade secret. This risk is required by the patent laws and interference with this risk is interference with the patent laws.

II. CONCLUSION

For the above reasons, Petitioner prays that this Petition For Writ Of Certiorari be granted.

Respectfully submitted,

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APPENDIX

APPENDIX A

CONSTITUTION OF THE UNITED STATES OF AMERICA

ART 1, SEC. 8., CL. 8. The Congress shall have power... To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.

UNITED STATES CODE
TITLE 35—PATENTS

§ 100 Definitions

When used in this title unless the context otherwise indicates—

(a) The term "invention" means invention or discovery.

(b) The term "process" means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.

(c) The terms "United States" and "this country" mean the United States of America, its territories and possessions.

(d) The word "patentee" includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.

(July 19, 1952, ch. 950, 66 Stat. 797.)

§ 101 Inventions patentable

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a

patent therefor, subject to the conditions and requirements of this title.

(July 19, 1952, ch. 950, 66 Stat. 797.)

§ 102 Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless—

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or on an international application by another who has fulfilled the requirements of paragraphs (1), (2), and (4) of section 371(c) of this title before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof the invention was made in this country by another who had not aban-

doned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

(July 19, 1952, ch. 950, 66 Stat. 797; July 28, 1972, Pub. L. 92-358, § 2, 86 Stat. 502; Nov. 14, 1975, Pub. L. 94-131, § 5, 89 Stat. 691.)

§ 103 Conditions for patentability; non-obvious subject matter

A patent may not be obtained though the invention is not identically disclosed or described as set forth in § 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

Subject matter developed by another person, which qualifies as prior art only under subsection (f) or (g) of § 102 of this title, shall not preclude patentability under this section where the subject matter and the claimed invention were, at the time the invention was made, owned by the same person or subject to an obligation of assignment to the same person.

(July 19, 1952, ch. 950, 66 Stat. 797; Nov. 8, 1984, Pub. L. 98-622, § 103)

§ 104 Invention made abroad

In proceedings in the Patent and Trademark Office and in the courts, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country, except as provided in sec-

tions 119 and 365 of this title. Where an invention was made by a person, civil or military, while domiciled in the United States and serving in a foreign country in connection with operations by or on behalf of the United States, he shall be entitled to the same rights of priority with respect to such invention as if the same had been made in the United States.

(July 19, 1952, ch. 950, 66 Stat. 797; Jan. 2, 1975, Pub. L. 93-596, § 1, 88 Stat. 1949; Nov. 14, 1975, Pub. L. 94-131, § 6, 89 Stat.691; Nov. 8, 1984, Pub. L. 98-622, § 403(a).)

§ 111 Application for patent

Application for patent shall be made, or authorized to be made, by the inventor, except as otherwise provided in this title, in writing to the Commissioner. Such application shall include (1) a specification as prescribed by section 112 of this title; (2) a drawing as prescribed by section 113 of this title; and (3) an oath by the applicant as prescribed by section 115 of this title. The application must be accompanied by the fee required by law. The fee and oath may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Commissioner. Upon failure to submit the fee and oath within such prescribed period, the application shall be regarded as abandoned, unless it is shown to the satisfaction of the Commissioner that the delay in submitting the fee and oath was unavoidable. The filing date of an application shall be the date on which the specification and any required drawing are received in the Patent and Trademark Office.

(July 19, 1952, ch. 950, 66 Stat. 797; Aug. 27, 1982, Pub. L. 97-247, § 5, 96 Stat. 319.)

§ 112 Specification

The specification shall contain a written description of the invention, and of the manner and process of making

and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

A claim may be written in independent or, if the nature of the case admits, in dependent or multiple dependent form.

Subject to the following paragraph, a claim in dependent form shall contain a reference to a claim previously set forth and then specify a further limitation of the subject matter claimed. A claim in dependent form shall be construed to incorporate by reference all the limitations of the claim to which it refers.

A claim in multiple dependent form shall contain a reference, in the alternative only, to more than one claim previously set forth and then specify a further limitation of the subject matter claimed. A multiple dependent claim shall not serve as a basis for any other multiple dependent claim. A multiple dependent claim shall be construed to incorporate by reference all the limitations of the particular claim in relation to which it is being considered.

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.

(July 19, 1952, ch. 950, 66 Stat. 798; July 24, 1965, Pub. L. 89-83, § 9, 79 Stat. 261; Nov. 14, 1975, Pub. L 94-131, § 7, 89 Stat. 691.)

Sherman Antitrust Act.

(15 USC § 1-7, codifying the Sherman Antitrust Act, July 2, 1890, 26 Stat 209, as amended)

§ 1 Trusts, etc., in restraint of trade illegal; penalty.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

(July 2, 1890, ch 647, § 1, 26 Stat 209; Aug. 17, 1937, ch 690, title VIII, 50 Stat 693; July 7, 1955, ch 281, 69 Stat 282; Dec. 21, 1974, Pub L 93-528, § 3, 88 Stat 1708; Dec. 12, 1975, Pub L 94-145, § 2, 89 Stat 801.)

§ 2 Monopolizing trade a felony; penalty.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

(July 2, 1890, ch 647, § 2, 26 Stat 209; July 7, 1955, ch 281, 69 Stat 282; Dec. 21, 1974, Pub L 93-528, § 3, 88 Stat 1708.)

§ 3 Trusts in Territories or District of Columbia illegal; combination a felony.

Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or both said punishments, in the discretion of the court.

(July 2, 1890, ch 647, § 3, 26 Stat 209; July 7, 1955, ch 281, 69 Stat 282; Dec. 21, 1974, Pub L 93-528, § 3, 88 Stat 1708.)

§ 4 Jurisdiction of courts; duty of United States attorneys; procedure.

The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of sections 1 to 7 of this title; and it shall be the duty of the several United States attorneys, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition and before final decree, the court may at any time make

such temporary restraining order or prohibition as shall be deemed just in the premises.

(July 2, 1890, ch 647, § 4, 26 Stat 209; Mar. 3, 1911, ch 231, § 291, 36 Stat 1167; June 25, 1948, ch 646, § 1, 62 Stat 909.)

§ 5 Bringing in additional parties.

Whenever it shall appear to the court before which any proceediaaa g under section 4 of this title may be pending, that the ends of justice require that other parties should be brought before the court, the court may cause them to be summoned, whether they reside in the district in which the court is held or not; and subpoenas to that end may be served in any district by the marshal thereof.

(July 2, 1890, ch 647, § 5, 26 Stat 210.)

§ 6 Forfeiture of property in transit.

Any property owned under any contract or by any combination, or pursuant to any conspiracy (and being the subject thereof) mentioned in section 1 of this title, and being in the course of transportation from one State to another, or to a foreign country, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law.

(July 2, 1890, ch 647, § 6, 26 Stat 210.)

§ 6a Conduct involving trade or commerce with foreign nations.

Sections 1 to 7 of this title shall not apply to conduct involving trade or commerce (other than import trade or import commerce) with foreign nations unless—

(1) such conduct has a direct, substantial, and reasonably foreseeable effect—

(A) on trade or commerce which is not trade or commerce with foreign nations, or on import trade or import commerce with foreign nations; or

(B) on export trade or export commerce with foreign nations, of a person engaged in such trade or commerce in the United States; and

(2) such effect gives rise to a claim under the provisions of sections 1 to 7 of this title, other than this section. If sections 1 to 7 of this title apply to such conduct only because of the operation of paragraph (1)(B), then sections 1 to 7 of this title shall apply to such conduct only for injury to export business in the United States.

(July 2, 1890, ch 647, § 7, as added Oct. 8, 1982, Pub L 97-290, title IV, § 402, 96 Stat 1246.)

§ 7 "Person" defined.

The word "person", or "persons", wherever used in sections 1 to 7 of this title shall be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the Territories, the laws of any State, or the laws of any foreign country.

(July 2, 1890, ch 647, § 8, 26 Stat 210.)

Clayton Antitrust Act.

(15 USC §§ 12-27 and 29 USC §52, codifying the Clayton Antitrust Act, Oct. 15, 1914, ch 323, 38 Stat 730, as amended)

An Act to supplement existing laws against unlawful restraints and monopolies, and for other purposes.

§ 12 Words defined; short title.

(a) "Antitrust laws," as used herein, includes the Act entitled "An Act to protect trade and commerce against

unlawful restraints and monopolies," approved July second, eighteen hundred and ninety; sections seventy-three to seventy-seven, inclusive, of an Act entitled "An Act to reduce taxation, to provide revenue for the Government, and for other purposes," of August twenty-seventh, eighteen hundred and ninety-four; and Act entitled "An Act to amend sections seventy-three and seventy-six of the Act of August twenty-seventh, eighteen hundred and ninety-four, entitled 'An Act to reduce taxation, to provide revenue for the Government, and for other purposes,' " approved February twelfth, nineteen hundred and thirteen; and also this Act.

"Commerce," as used herein, means trade or commerce among the several States and with foreign nations, or between the District of Columbia or any Territory of the United States and any State, Territory, or foreign nation, or between any insular possessions or other places under the jurisdiction of the United States; or between any such possession or place and any State or Territory of the United States or the District of Columbia or any foreign nation, or within the District of Columbia or any Territory or any insular possession or other place under the jurisdiction of the United States; *Provided*, That nothing in this Act contained shall apply to the Phillippine Islands.

The word "person" or "persons" wherever used in this Act shall be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the Territories, the laws of any State, or the laws of any foreign country.

(b) This Act may be cited as the "Clayton Act".

(Oct. 15, 1914, ch 323, § 1, 38 Stat 730; Sept. 30, 1976, Pub L 94-435, title III, § 305(b), 90 Stat 1397.)

§ 13 Discrimination in price, services, or facilities.

(a) Price; selection of customers.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, either directly or

indirectly, to discriminate in price between different purchasers of commodities of like grade and quality, where either or any of the purchases involved in such discrimination are in commerce, where such commodities are sold for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, and where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them: *Provided*, That nothing herein contained shall prevent differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such commodities are to such purchasers sold or delivered: *Provided, however*, That the Federal Trade Commission may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise the same as it finds necessary, as to particular commodities or classes of commodities, where it finds that available purchasers in greater quantities are so few as to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce; and the foregoing shall then not be construed to permit the differentials based on differences in quantities greater than those so fixed and established: *And provided further*, That nothing herein contained shall prevent persons engaged in selling goods, wares, or merchandise in commerce from selecting their own customers in bona fide transactions and not in restraint of trade: *And provided further*, That nothing herein contained shall prevent price changes from time to time where in response to changing conditions affecting the market for or the marketability of the goods concerned, such as but not limited to actual or imminent

deterioration of perishable goods, obsolescence of seasonal goods, distress sales under court process, or sales in good faith in discontinuance of business in the goods concerned.

(b) Burden of rebutting prima-facie case of discrimination.

Upon proof being made, at any hearing on a complaint under this section, that there has been discrimination in price or services or facilities furnished, the burden of rebutting the prima-facie case thus made by showing justification shall be upon the person charged with a violation of this section, and unless justification shall be affirmatively shown, the Commission is authorized to issue an order terminating the discrimination: *Provided, however,* That nothing herein contained shall prevent a seller rebutting the prima-facie case thus made by showing that his lower price or the furnishing of services or facilities to any purchaser or purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor.

(c) Payment or acceptance of commission, brokerage or other compensation.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to pay or grant, or to receive or accept, anything of value as a commission, brokerage, or other compensation, or any allowance or discount in lieu thereof, except for services rendered in connection with the sale or purchase of goods, wares, or merchandise, either to the other party to such transaction or to an agent, representative, or other intermediary therein where such intermediary is acting in fact for or in behalf, or is subject to the direct or indirect control, of any party to such transaction other than the person by whom such compensation is so granted or paid.

(d) Payment for services or facilities for processing or sale.

It shall be unlawful for any person engaged in commerce to pay or contract for the payment of anything of value

to or for the benefit of a customer of such person in the course of such commerce as compensation or in consideration for any services or facilities furnished by or through such customer in connection with the processing, handling, sale, or offering for sale of any products or commodities manufactured, sold, or offered for sale by such person, unless such payment or consideration is available on proportionally equal terms to all other customers competing in the distribution of such products or commodities.

(e) Furnishing services or facilities for processing, handling, etc.

It shall be unlawful for any person to discriminate in favor of one purchaser against another purchaser or purchasers of a commodity bought for resale, with or without processing, by contracting to furnish or furnishing, or by contributing to the furnishing of, any services or facilities connected with the processing, handling, sale, or offering for sale of such commodity so purchased upon terms not accorded to all purchasers on proportionally equal terms.

(f) Knowingly inducing or receiving discriminatory price.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, knowingly to induce or receive a discrimination in price which is prohibited by this section.

(Oct. 15, 1914, ch 323, § 2, 38 Stat 730; June 19, 1936, ch 592, § 1, 49 Stat 1526.)

§ 14 Sale, etc., on agreement not to use goods of competitor.

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District

of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

(Oct. 15, 1914, ch 323, § 3, 38 Stat 731.)

§ 15 Suits by persons injured.

(a) Amount of recovery; prejudgment interest.

Except as provided in subsection (b) of this section, any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee. The court may award under this section, pursuant to a motion by such person promptly made, simple interest on actual damages for the period beginning on the date of service of such person's pleading setting forth a claim under the antitrust laws and ending on the date of judgment, or for any shorter period therein, if the court finds that the award of such interest for such period is just in the circumstances. In determining whether an award of interest under this section for any period is just in the circumstances, the court shall consider only—

(1) whether such person or the opposing party, or either party's representative, made motions or asserted claims or defenses so lacking in merit as to show that such party

or representative acted intentionally for delay, or otherwise acted in bad faith;

(2) whether, in the course of the action involved, such person or the opposing party, or either party's representative, violated any applicable rule, statute, or court order providing for sanctions for dilatory behavior or otherwise providing for expeditious proceedings; and

(3) whether such person or the opposing party, or either party's representative, engaged in conduct primarily for the purpose of delaying the litigation or increasing the cost thereof.

(b) Amount of damages payable to foreign states and instrumentalities of foreign states.

(1) Except as provided in paragraph (2), any person who is a foreign state may not recover under subsection (a) of this section an amount in excess of the actual damages sustained by it and the cost of suit, including a reasonable attorney's fee.

(2) Paragraph (1) shall not apply to a foreign state if—

(A) such foreign state would be denied, under section 1605(a)(2) of title 28, immunity in a case in which the action is based upon a commercial activity, or an act, that is the subject matter of its claim under this section;

(B) such foreign state waives all defenses based upon or arising out of its status as a foreign state, to any claims brought against it in the same action;

(C) such foreign state engages primarily in commercial activities; and

(D) such foreign state does not function, with respect to the commercial activity, or the act, that is the subject matter of its claim under this section as a procurement entity for itself or for another foreign state.

(c) Definitions.

For purposes of this section—

(1) the term "commercial activity" shall have the meaning given it in section 1603(d) of title 28, and

(2) the term "foreign state" shall have the meaning given it in section 1603(a) of title 28.

(Oct. 15, 1914, ch 323, § 4, 38 Stat 731; Sept. 12, 1980, Pub L 96-349, § 4(a)(1), 94 Stat 1156; Dec. 29, 1982, Pub L 97-393, 96 Stat 1964.)

§ 15a Suits by United States; amount of recovery; prejudgment interest.

Whenever the United States is hereafter injured in its business or property by reason of anything forbidden in the antitrust laws it may sue therefor in the United States district court for the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover actual damages by it sustained and the cost of suit. The court may award under this section, pursuant to a motion by the United States promptly made, simple interest on actual damages for the period beginning on the date of service of the pleading of the United States setting forth a claim under the antitrust laws and ending on the date of judgment, or for any shorter period therein, if the court finds that the award of such interest for such period is just in the circumstances. In determining whether an award of interest under this section for any period is just in the circumstances, the court shall consider only—

(1) whether the United States or the opposing party, or either party's representative, made motions or asserted claims or defenses so lacking in merit as to show that such party or representative acted intentionally for delay or otherwise acted in bad faith;

(2) whether, in the course of the action involved, the United States or the opposing party, or either party's representative, violated any applicable rule, statute, or court order providing for sanctions for dilatory behavior or otherwise providing for expeditious proceedings;

(3) whether the United States or the opposing party, or either party's representative, engaged in conduct primarily for the purpose of delaying the litigation or increasing the cost thereof; and

(4) whether the award of such interest is necessary to compensate the United States adequately for the injury sustained by the United States.

(Oct. 15, 1914, ch 323, § 4A, as added July 7, 1955,ch 283, § 1, 69 Stat 282, and amended Sept. 12, 1980, Pub L 96-349, § 4(a)(2), 94 Stat 1156.)

§ 15b Limitation of actions

Any action to enforce any cause of action under sections 15, 15a, or 15c of this title shall be forever barred unless commenced within four years after the cause of action accrued. No cause of action barred under existing law on the effective date of this Act shall be revived by this Act.

(Oct 15, 1914, ch 323, § 4B, as added July 7, 1955, ch 283, § 1, 69 Stat 283, and amended Sept. 30, 1976, Pub L 94-435, title III, § 302(1), 90 Stat 1396.)

§ 15c Actions by State attorneys general.

(a) Parens patriae; monetary relief; damages; prejudgment interest.

(1) Any attorney general of a State may bring a civil action in the name of such State, as parens patriae on behalf of natural persons residing in such State, in any district court of the United States having jurisdiction of the defendant, to secure monetary relief as provided in this section for injury sustained by such natural persons to their property by reason of any violation of sections 1

to 7 of this title. The court shall exclude from the amount of monetary relief awarded in such action any amount of monetary relief (A) which duplicates amounts which have been awarded for the same injury, or (B) which is properly allocable to (i) natural persons who have excluded their claims pursuant to subsection (b)(2) of this section, and (ii) any business entity.

(2) The court shall award the State as monetary relief threefold the total damage sustained as described in paragraph (1) of this subsection, and the cost of suit, including a reasonable attorney's fee. The court may award under this paragraph pursuant to a motion by such State promptly made, simple interest on the total damage for the period beginning on the date of service of such State's pleading setting forth a claim under the antitrust laws and ending on the date of judgment, or for any shorter period therein, if the court finds that the award of such interest for such period is just in the circumstances. In determining whether an award of interest under this paragraph for any period is just in the circumstances, the court shall consider only—

(A) whether such State or the opposing party, or either party's representative, made motions or asserted claims or defenses so lacking in merit as to show that such party or representative acted intentionally for delay or otherwise acted in bad faith;

(B) whether, in the course of the action involved, such State or opposing party, or either party's representative, violated any applicable rule, statute, or court order providing for sanctions for dilatory behavior or otherwise providing for expeditious proceedings; and

(C) whether such State or the opposing party, or either party's representative, engaged in conduct primarily for the purpose of delaying the litigation or increasing the cost thereof.

(b) Notice; exclusion election; final judgment.

(1) In any action brought under subsection (a)(1) of this section, the State attorney general shall, at such times, in such manner, and with such content as the court may direct, cause notice thereof to be given by publication. If the court finds that notice given solely by publication would deny due process of law to any person or persons, the court may direct further notice to such person or persons according to the circumstances of the case.

(2) Any person on whose behalf an action is brought under subsection (a)(1) of this section may elect to exclude from adjudication the portion of the State claim for monetary relief attributable to him by filing notice of such election with the court within such time as specified in the notice given pursuant to paragraph (1) of this subsection.

(3) The final judgment in an action under subsection (a)(1) of this section shall be res judicata as to any claim under section 15 of this title by any person on behalf of whom such action was brought and who fails to give such notice within the period specified in the notice given pursuant to paragraph (1) of this subsection.

(c) Dismissal or compromise of action.

An action under subsection (a)(1) of this section shall not be dismissed or compromised without the approval of the court, and notice of any proposed dismissal or compromise shall be given in such manner as the court directs.

(d) Attorney's fees.

In any action under subsection (a) of this section—

(1) the amount of the plaintiffs' attorney's fee, if any, shall be determined by the court; and

(2) the court may, in its discretion, award a reasonable attorney's fee to a prevailing defendant upon a finding

that the State attorney general has acted in bad faith, vexatiously, wantonly, or for oppressive reasons.

(Oct. 15, 1914, ch 323, § 4C, as added Sept. 30, 1976, Pub L 94-435, title III, § 301, 90 Stat 1394, and amended Sept. 12, 1980, Pub L 96-349, § 4(a)(3), 94 STat 1157.)

§ 15d Measurement of damages.

In any action under section 15c(a)(1) of this title, in which there has been a determination that a defendant agreed to fix prices in violation of sections 1 to 7 of this title, damages may be proved and assessed in the aggregate by statistical or sampling methods, by the computation of illegal overcharges, or by such other reasonable system of estimating aggregate damages as the court in its discretion may permit without the necessity of separately proving the individual claim of, or amount of damage to, persons on whose behalf the suit was brought.

(Oct. 15, 1914, ch 323, § 4D, as added Sept. 30, 1976, Pub L 94-435, title III, § 301, 90 Stat 1395.)

§ 15e Distribution of damages.

Monetary relief recovered in an action under section 15c(a)(1) of this title shall—

(1) be distributed in such manner as the district court in its discretion may authorize; or

(2) be deemed a civil penalty by the court and deposited with the State as general revenues; subject in either case to the requirement that any distribution procedure adopted afford each person a reasonable opportunity to secure his appropriate portion of the net monetary relief.

(Oct. 15, 1914, ch 323, § 4E, as added Sept. 30, 1976, Pub L 94-435, title III, § 301, 90 Stat 1395)

§ 15f Actions by Attorney General.

(a) Notification to State attorney general.

Whenever the Attorney General of the United States has brought an action under the antitrust laws, and he has reason to believe that any State attorney general would be entitled to bring an action under this Act based substantially on the same alleged violation of the antitrust laws, he shall promptly give written notification thereof to such State attorney general.

(b) Availability of files and other materials.

To assist a State attorney general in evaluating the notice or in bringing any action under this Act, the Attorney General of the United States shall, upon request by such State attorney general, make available to him, to the extent permitted by law, any investigative files or other materials which are or may be relevant or material to the actual or potential cause of action under this Act.

(Oct. 15, 1914, ch 323, § 4F, as added Sept. 30, 1976, Pub L 94-435, title III, § 301, 90 Stat 1395.)

§ 15g Definitions.

For the purposes of sections 15c, 15d, 15e, and 15 f of this title:

(1) The term "State attorney general" means the chief legal officer of a State, or any other person authorized by State law to bring actions under section 15c of this title, and includes the Corporation Counsel of the District of Columbia, except that such term does not include any person employed or retained on—

(A) contingency fee based on a percentage of the monetary relief awarded under this section; or

(B) any other contingency fee basis, unless the amount of the award of a reasonable attorney's fee to a prevailing plaintiff is determined by the court under section 15c(d)(1) of this title.

(2) The term "State" means a State, the District of Columbia, the Commonwealth of Puerto Rico, and any other territory or possession of the United States.

(3) The term "natural persons" does not include proprietorships or partnerships.

(Oct. 15, 1914, ch 323, § 4G, as added Sept. 30, 1976, Pub L 94-435, title III, § 301, 90 Stat 1396.)

§ 15h Applicability of parens patriae actions.

Sections 15c, 15d, 15e, 15f, and 15g of this title shall apply in any State, unless such State provides by law for its nonapplicability in such State.

(Oct. 15, 1914, ch 323, § 4H, as added Sept. 30, 1976, Pub L 94-435, title III, § 301, 90 Stat 1396.)

§ 16 Judgments.

(a) Prima facie evidence; collateral estoppel.

A final judgment or decree heretofore or hereafter rendered in any civil or criminal proceeding brought by or on behalf of the United States under the antitrust laws to the effect that a defendant has violated said laws shall be prima facie evidence against such defendant in any action or proceeding brought by any other party against such defendant under said laws as to all matters respecting which said judgment or decree would be an estoppel as between the parties thereto: *Provided,* That this section shall not apply to consent judgments or decrees entered before any testimony has been taken. Nothing contained in this section shall be construed to impose any limitation on the application of collateral estoppel, except that, in any action or proceeding brought under the antitrust laws, collateral estoppel effect shall not be given to any finding made by the Federal Trade Commission under the antitrust laws or under section 45 of this title which could give rise to a claim for relief under the antitrust laws.

(b) Consent judgments and competitive impact statements; publication in Federal Register; availability of copies to the public.

Any proposal for a consent judgment submitted by the United States for entry in any civil proceeding brought by or on behalf of the United States under the antitrust laws shall be filed with the district court before which such proceeding is pending and published by the United States in the Federal Register at least 60 days prior to the effective date of such judgment. Any written comments relating to such proposal and any responses by the United States thereto, shall also be filed with such district court and published by the United States in the Federal Register within such sixty-day period. Copies of such proposal and any other materials and documents which the United States considered determinative in formulating such proposal, shall also be made available to the public at the district court and in such other districts as the court may subsequently direct. Simultaneously with the filing of such proposal, unless otherwise instructed by the court, the United States shall file with the district court, publish in the Federal Register, and thereafter furnish to any person upon request, a competitive impact statement which shall recite—

(1) the nature and purpose of the proceeding;

(2) a description of the practices or events giving rise to the alleged violation of the antitrust laws;

(3) an explanation of the proposal for a consent judgment, including an explanation of any unusual circumstances giving rise to such proposal or any provision contained therein, relief to be obtained thereby, and the anticipated effects on competition of such relief;

(4) the remedies available to potential private plaintiffs damaged by the alleged violation in the event that such

proposal for the consent judgment is entered in such proceeding;

(5) a description of the procedures available for modification of such proposal; and

(6) a description and evaluation of alternatives to such proposal actually considered by the United States.

(c) Publication of summaries in newspapers.

The United States shall also cause to be published, commencing at least 60 days prior to the effective date of the judgment described in subsection (b) of this section, for 7 days over a period of 2 weeks in newspapers of general circulation of the district in which the case has been filed, in the District of Columbia, and in such other districts as the court may direct—

(i) a summary of the terms of the proposal for consent judgment,

(ii) a summary of the competitive impact statement filed under subsection (b) of this section,

(iii) and a list of the materials and documents under subsection (b) of this section which the United States shall make available for purposes of meaningful public comment, and the place where such materials and documents are available for public inspection.

(d) Consideration of public comments by Attorney General and publication of response.

During the 60-day period as specified in subsection (b) of this section, and such additional time as the United States may request and the court may grant, the United States shall receive and consider any written comments relating to the proposal for the consent judgment submitted under subsection (b) of this section. The Attorney General or his designee shall establish procedures to carry out the provisions of this subsection, but such 60-day time

period shall not be shortened except by order of the district court upon a showing that (1) extraordinary circumstances require such shortening and (2) such shortening is not adverse to the public interest. At the close of the period during which such comments may be received, the United States shall file with the district court and cause to be published in the Federal Register a response to such comments.

(e) Public interest determination.

Before entering any consent judgment proposed by the United States under this section, the court shall determine that the entry of such judgment is in the public interest. For the purpose of such determination, the court may consider—

(1) the competitive impact of such judgment, including termination of alleged violations, provisions for enforcement and modification, duration or relief sought, anticipated effects of alternative remedies actually considered, and any other considerations bearing upon the adequacy of such judgment;

(2) the impact of entry of such judgment upon the public generally and individuals alleging specific injury from the violations set forth in the complaint including consideration of the public benefit, if any, to be derived from a determination of the issues at trial.

(f) Procedure for public interest determination.

In making its determination under subsection (e) of this section, the court may—

(1) take testimony of Government officials or experts or such other expert witnesses, upon motion of any party or participant or upon its own motion, as the court may deem appropriate;

(2) appoint a special master and such outside consultants or expert witnesses as the court may deem appropriate;

and request and obtain the views, evaluations, or advice of any individual, group or agency of government with respect to any aspects of the proposed judgment or the effect of such judgment, in such manner as the court deems appropriate;

(3) authorize full or limited participation in proceedings before the court by interested persons or agencies, including appearance amicus curiae, intervention as a party pursuant to the Federal Rules of Civil Procedure, examination of witnesses or documentary materials, or participation in any other manner and extent which serves the public interest as the court may deem appropriate;

(4) review any comments including any objections filed with the United States under subsection (d) of this section concerning the proposed judgment and the responses of the United States to such comments and objections; and

(5) take such other action in the public interest as the court may deem appropriate.

(g) Filing of written or oral communications with the district court.

Not later than 10 days following the date of the filing of any proposal for a consent judgment under subsection (b) of this section, each defendant shall file with the district court a description of any and all written or oral communications by or on behalf of such defendant, including any and all written or oral communications on behalf of such defendant, or other person, with any officer or employee of the United States concerning or relevant to such proposal, except that any such communications made by counsel of record alone with the Attorney General or the employees of the Department of Justice alone shall be excluded from the requirements of this subsection. Prior to the entry of any consent judgment pursuant to the antitrust laws, each defendant shall certify to the district court that the requirements of this subsection have been

complied with and that such filing is a true and complete description of such communications known to the defendant or which the defendant reasonably should have known.

(h) Inadmissibility as evidence of proceedings before the district court and the competitive impact statement.

Proceedings before the district court under subsections (e) and (f) of this section, and the competitive impact statement filed under subsection (b) of this section, shall not be admissible against any defendant in any action or proceeding brought by any other party against such defendant under the antitrust laws or by the United States under section 15a of this title nor constitute a basis for the introduction of the consent judgment as prima facie evidence against such defendant in any such action or proceeding.

(i) Suspension of limitations.

Whenever any civil or criminal proceeding is instituted by the United States to prevent, restrain, or punish violations of any of the antitrust laws, but not including an action under section 15a of this title, the running the the statute of limitations in respect to every private or State right of action arising under said laws and based in whole or in part on any matter complained of in said proceeding shall be suspended during the pendency thereof and for one year thereafter: *Provided, however,* That whenever the running of the statute of limitations in respect of a cause of action arising under section 15 or 15c of this title is suspended hereunder, any action to enforce such cause of action shall be forever barred unless commenced either within the period of suspension or within four years after the cause of action accrued.

(Oct. 15, 1914, ch 323, § 5, 38 Stat 731; July 7, 1955, ch 283, § 2, 69 Stat 283; Dec. 21, 1974, Pub L 93-528, § 2, 88 Stat 1706; Sept. 30, 1976, Pub L 94-435, title III,

§ 302(2), 90 Stat 1396; Sept 12, 1980, Pub L 96-349, § 5(a), 94 Stat 1157.)

§ 17 Antitrust laws not applicable to labor organizations.

The labor of a human being is not a commodity or article of commerce. Nothing contained in the antitrust laws shall be construed to forbid the existence and operation of labor, agricultural, or horticultural organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the antitrust laws.

(Oct. 15, 1914, ch 323, § 6, 38 Stat 731.)

§ 18 Acquisition by one corporation of stock of another.

No person engaged in commerce or in any activity affecting commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no person subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another person engaged also in commerce or in any activity affecting commerce, where in any line of commerce or in any activity affecting commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.

No person shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no person subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of one or more persons engaged in commerce or in any activity affecting commerce, where in any line of commerce or in any activity affecting commerce in any section of the country, the effect of such acquisition, of

such stocks or assets, or of the use of such stock by the voting or granting of proxies or otherwise, may be substantially to lessen competition, or to tend to create a monopoly.

This section shall not apply to persons purchasing such stock solely for investment and not using the same by voting or otherwise to bring about, or in attempting to bring about, the substantial lessening of competition. Nor shall anything contained in this section prevent a corporation engaged in commerce or in any activity affecting commerce from causing the formation of subsidiary corporations for the actual carrying on of their immediate lawful business, or the natural and legitimate branches or extensions thereof, or from owning and holding all or a part of the stock of such subsidiary corporations, when the effect of such formation is not to substantially lessen competition.

Nor shall anything herein contained be construed to prohibit any common carrier subject to the laws to regulate commerce from aiding in the construction of branches or short lines so located as to become feeders to the main line of the company so aiding in such construction or from acquiring or owning all or any part of the stock of such branch lines, nor to prevent any such common carrier from acquiring and owning all or any part of the stock of a branch or short line constructed by an independent company where there is no substantial competition between the company owning the branch line so constructed and the company owning the main line acquiring the property or an interest therein, nor to prevent such common carrier from extending any of its lines through the medium of the acquisition of stock or otherwise of any other common carrier where there is no substantial competition between the company extending its lines and the company whose stock, property, or an interest therein is so acquired.

Nothing contained in this section shall be held to affect or impair any right heretofore legally acquired: *Provided*, That nothing in this section shall be held or construed to authorize or make lawful anything heretofore prohibited or made illegal by the antitrust laws, nor to exempt any person from the penal provisions thereof or the civil remedies therein provided.

Nothing contained in this section shall apply to transactions duly consummated pursuant to authority given by the Civil Aeronautics Board, Federal Communications Commission, Federal Power Commission, Interstate Commerce Commission, the Securities and Exchange Commission in the exercise of its jurisdiction under section 79j of this title, the United States Maritime Commission, or the Secretary of Agriculture under any statutory provision vesting such power in such Commission, Secretary, or Board.

(Oct. 15, 1914, ch 323, § 7, 38 Stat 731; Dec. 29, 1950, ch 1184, 64 Stat 1125; Sept. 12, 1980, Pub L 96-349, § 6(a), 94 Stat 1157.)

§ 18a Premerger notification and waiting period.

(a) Filing.

Except as exempted pursuant to subsection (c) of this section, no person shall acquire, directly or indirectly, any voting securities or assets of any other person, unless both persons (or in the case of a tender offer, the acquiring person) file notification pursuant to rules under subsection (d)(1) of this section and the waiting period described in subsection (b)(1) of this section has expired, if—

(1) the acquiring person, or the person whose voting securities or assets are being acquired, is engaged in commerce or in any activity affecting commerce;

(2)(A) any voting securities or assets of a person engaged in manufacturing which has annual net sales or total

assets of $10,000,000 or more are being acquired by any person which has total assets or annual net sales of $100,000,000 or more;

(B) any voting securities or assets of a person not engaged in manufacturing which has total assets of $10,000,000 or more are being acquired by any person which has total assets or annual net sales of $100,000,000 or more; or

(C) any voting securities or assets of a person with annual net sales or total assets of $100,000,000 or more are being acquired by any person with total assets or annual net sales of $10,000,000 or more; and

(3) as a result of such acquisition, the acquiring person would hold—

(A) 15 per centum or more of the voting securities or assets of the acquired person, or

(B) an aggregate total amount of the voting securities and assets of the acquired person in excess of $15,000,000.

In the case of a tender offer, the person whose voting securities are sought to be acquired by a person required to file notification under this subsection shall file notification pursuant to rules under subsection (d) of this section.

(b) Waiting period; publication; voting securities.

(1) The waiting period required under subsection (a) of this section shall—

(A) begin on the date of the receipt by the Federal Trade Commission and the Assistant Attorney General in charge of the Antitrust Division of the Department of Justice (hereinafter referred to in this section as the "Assistant Attorney General") of—

(i) the completed notification required under subsection (a) of this section, or

(ii) if such notification is not completed, the notification to the extent completed and a statement of the reasons for such noncompliance, from both persons, or, in the case of a tender offer, the acquiring person; and

(B) end on the thirtieth day after the date of such receipt (or in the case of a cash tender offer, the fifteenth day), or on such later date as may be set under subsection (e)(2) or (g)(2) of this section.

(2) The Federal Trade Commission and the Assistant Attorney General may, in individual cases, terminate the waiting period specified in paragraph (1) and allow any person to proceed with any acquisition subject to this section, and promptly shall cause to be published in the Federal Register a notice that neither intends to take any action within such period with respect to such acquisition.

(3) As used in this section—

(A) The term "voting securities" means any securities which at present or upon conversion entitle the owner or holder thereof to vote for the election of directors of the issuer or, with respect to unincorporated issuers, persons exercising similar functions.

(B) The amount or percentage of voting securities or assets of a person which are acquired or held by another person shall be determined by aggregating the amount or percentage of such voting securities or assets held or acquired by such other person and each affiliate thereof.

(c) Exempt transactions.

The following classes of transactions are exempt from the requirements of this section—

(1) acquisitions of goods or realty transferred in the ordinary course of business;

(2) acquisitions of bonds, mortgages, deeds of trust, or other obligations which are not voting securities;

(3) acquisitions of voting securities of an issuer at least 50 per centum of the voting securities of which are owned by the acquiring person prior to such acquisition;

(4) transfers to or from a Federal agency or a State or political subdivision thereof;

(5) transactions specifically exempted from the antitrust laws by Federal statute;

(6) transactions specifically exempted from the antitrust laws by Federal statute if approved by a Federal agency, if copies of all information and documentary material filed with such agency are contemporaneously filed with the Federal Trade Commission and the Assistant Attorney General;

(7) transactions which require agency approval under section 1828(c) of title 12, or section 1842 of title 12;

(8) transactions which require agency approval under section 1843 of title 12, section 1726 or 1730a(e) of title 12, or section 1464 of title 12, if copies of all information and documentary material filed with any such agency are contemporaneously filed with the Federal Trade Commission and the Assistant Attorney General at least 30 days prior to consummation of the proposed transaction;

(9) acquisitions, solely for the purpose of investment, of voting securities, if, as a result of such acquisition, the securities acquired or held do not exceed 10 per centum of the outstanding voting securities of the issuer;

(10) acquisitions of voting securities, if, as a result of such acquisition, the voting securities acquired do not increase, directly or indirectly, the acquiring person's per centum share of outstanding voting securities of the issuer;

(11) acquisitions, solely for the purpose of investment, by any bank, banking association, trust company, investment company, or insurance company, of (A) voting se-

curities pursuant to a plan of reorganization or dissolution; or (B) assets in the ordinary course of its business; and

(12) such other acquisitions, transfers, or transactions, as may be exempted under subsection (d)(2)(B) of this section.

(d) Commission rules.

The Federal Trade Commission, with the concurrence of the Assistant Attorney General and by rule in accordance with section 553 of title 5, consistent with the purposes of this section—

(1) shall require that the notification required under subsection (a) of this section be in such form and contain such documentary material and information relevant to a proposed acquisition as is necessary and appropriate to enable the Federal Trade Commission and the Assistant Attorney General to determine whether such acquisition may, if consummated, violate the antitrust laws; and

(2) may—

(A) define the terms used in this section;

(B) exempt, from the requirements of this section, classes of persons, acquisitions, transfers, or transactions which are not likely to violate the antitrust laws; and

(C) prescribe such other rules as may be necessary and appropriate to carry out the purposes of this section.

(e) Additional information; waiting period extensions.

(1) The Federal Trade Commission or the Assistant Attorney General may, prior to the expiration of the 30-day waiting period (or in the case of a cash tender offer, the 15-day waiting period) specified in subsection (b)(1) of this section, require the submission of additional information or documentary material relevant to the proposed acquisition, from a person required to file notification with respect to such acquisition under subsection (a) of this

section prior to the expiration of the waiting period specified in subsection (b)(1) of this section, or from any officer, director, partner, agent, or employee of such person.

(2) The Federal Trade Commission or the Assistant Attorney General, in its or his discretion, may extend the 30-day waiting period (or in the case of a cash tender offer, the 15-day waiting period) specified in subsection (b)(1) of this section for an additional period of not more than 20 days (or in the case of a cash tender offer, 10 days) after the date on which the Federal Trade Commission or the Assistant Attorney General, as the case may be, receives from any person to whom a request is made under paragraph (1), or in the case of tender offers, the acquiring person, (A) all the information and documentary material required to be submitted pursuant to such a request, or (B) if such request is not fully complied with, the information and documentary material submitted and a statement of the reasons for such noncompliance. Such additional period may be further extended only by the United States district court, upon an application by the Federal Trade Commission or the Assistant Attorney General pursuant to subsection (g)(2) of this section.

(f) Preliminary injunctions; hearings.

If a proceeding is instituted or an action is filed by the Federal Trade Commission, alleging that a proposed acquisition violates section 18 of this title, or section 45 of this title, or an action is filed by the United States, alleging that a proposed acquisition violates such section 18 of this title, or section 1 or 2 of this title, and the Federal Trade Commission or the Assistant Attorney General (1) files a motion for a preliminary injunction against consummation of such acquisition pendente lite, and (2) certifies to the United States district court for the judicial district within which the respondent resides or carries on business, or in which the action is brought, that it or he believes

that the public interest requires relief pendente lite pursuant to this subsection—

(A) upon the filing of such motion and certification, the chief judge of such district court shall immediately notify the chief judge of the United States court of appeals for circuit in which such district court is located, who shall designate a United States district judge to whom such action shall be assigned for all purposes; and

(B) the motion for a preliminary injunction shall be set down for hearing by the district judge so designated at the earliest practicable time, shall take precedence over all matters except older matters of the same character and trials pursuant to section 3161 of title 18, and shall be in every way expedited.

(g) Civil penalty; compliance; power of court.

(1) Any person, or any officer, director, or partner thereof, who fails to comply with any provision of this section shall be liable to the United States for a civil penalty of not more than $10,000 for each day during which such person is in violation of this section. Such penalty may be recovered in a civil action brought by the United States.

(2) If any person, or any officer, director, partner, agent, or employee thereof, fails substantially to comply with the notification requirement under subsection (a) of this section or any request for the submission of additional information or documentary material under subsection (e)(1) of this section within the waiting period specified in subsection (b)(1) of this section and as may be extended under subsection (e)(2) of this section, the United States district court—

(A) may order compliance;

(B) shall extend the waiting period specified in subsection (b)(1) of this section and as may have been extended

under subsection (e)(2) of this section until there has been substantial compliance, except that, in the case of a tender offer, the court may not extend such waiting period on the basis of a failure, by the person whose stock is sought to be acquired, to comply substantially with such notification requirement or any such request; and

(C) may grant such other equitable relief as the court in its discretion determines necessary or appropriate, upon application of the Federal Trade Commission or the Assistant Attorney General.

(h) Disclosure exemption.

Any information or documentary material filed with the Assistant Attorney General or the Federal Trade Commission pursuant to this section shall be exempt from disclosure under section 552 of title 5, and no such information or documentary material may be made public, except as may be relevant to any administrative or judicial action or proceeding. Nothing in this section is intended to prevent disclosure to either body of Congress or to any duly authorized committee or subcommittee of the Congress.

(i) Construction with other laws.

(1) Any action taken by the Federal Trade Commission or the Assistant Attorney General or any failure of the Federal Trade Commission or the Assistant Attorney General to take any action under this section shall not bar any proceeding or any action with respect to such acquisition at any time under any other section of this Act or any other provision of law.

(2) Nothing contained in this section shall limit the authority of the Assistant Attorney General or the Federal Trade Commission to secure at any time from any person documentary material, oral testimony, or other information under the Antitrust Civil Process Act [15 USC 1311 et

seq.], the Federal Trade Commission Act [15 USC 41 et seq.], or any other provision of law.

(j) Report to Congress; legislative recommendations.

Beginning not later than January 1, 1978, the Federal Trade Commission, with the concurrence of the Assistant Attorney General, shall annually report to the Congress on the operation of this section. Such report shall include an assessment of the effects of this section, of the effects, purpose, and need for any rules promulgated pursuant thereto, and any recommendations for revisions of this section.

(Oct. 15, 1914, ch 323, § 7A, as added Sept. 30, 1976, Pub L 94-435, title II, § 201, 90 Stat 1390.)

§ 19 Interlocking directorates and officers.

No private banker or director, officer, or employee of any member bank of the Federal Reserve Sytem or any branch thereof shall be at the same time a director, officer, or employee of any other bank, banking association, savings bank, or trust company organized under the National Bank Act [12 USC 21 et seq.] or organized under the laws of any State or of the District of Columbia, or any branch thereof, except that the Board of Governors of the Federal Reserve System may by regulation permit such service as a director, officer, or employee of not more than one other such institution or branch thereof; but the foregoing prohibition shall not apply in the case of any one or more of the following or any branch thereof:

(1) A bank, banking association, savings bank, or trust company, more than 90 per centum of the stock of which is owned directly or indirectly by the United States or by any corporation of which the United States directly or indirectly owns more than 90 per centum of the stock.

(2) A bank, banking association, savings bank, or trust company which has been placed formally in liquidation or

which is in the hands of a receiver, conservator, or other official exercising similar functions.

(3) A corporation, principally engaged in international or foreign banking or banking in a dependency or insular possession of the United States which has entered into an agreement with the Board of Governors of the Federal Reserve System pursuant to section 25 of the Federal Reserve Act, as amended [12 USC 601 et seq.]

(4) A bank, banking association, savings bank, or trust company, more than 50 per centum of the common stock of which is owned directly or indirectly by persons who own directly or indirectly more than 50 per centum of the common stock of such member bank.

(5) A bank, banking association, savings bank, or trust company not located and having no branch in the same city, town, or village as that in which such member bank or any branch thereof is located, or in any city, town, or village contiguous or adjacent thereto.

(6) A bank, banking association, savings bank, or trust company not engaged in a class or classes of business in which such member bank is engaged.

(7) A mutual savings bank having no capital stock.

Until February 1, 1939, nothing in this section shall prohibit any director, officer, or employee of any member bank of the Federal Reserve System, or any branch thereof, who is lawfully serving at the same time as a private banker or as a director, officer, or employee of any other bank, banking association, savings bank, or trust company, or any branch thereof, on August 23, 1935, from continuing such service.

The Board of Governors of the Federal Reserve System is authorized and directed to enforce compliance with this section, and to prescribe such rules and regulations as it deems necessary for that purpose.

No person at the same time shall be a director in any two or more corporations, any one of which has capital, surplus, and undivided profits aggregating more than $1,000,000, engaged in whole or in part in commerce, other than banks, banking associations, trust companies, and common carriers subject to subtitle IV of title 49, if such corporations are or shall have been theretofore, by virtue of their business and location of operation, competitors, so that the elimination of competition by agreement between them would constitute a violation of any of the provisions of any of the antitrust laws. The eligibility of a director under the foregoing provision shall be determined by the aggregate amount of the capital, surplus, and undivided profits, exclusive of dividends declared but not paid to stockholders, at the end of the fiscal year of said corporation next preceding the election of directors, and when a director has been elected in accordance with the provisions of this Act it shall be lawful for him to continue as such for one year thereafter.

When any person elected or chosen as a director or officer or selected as an employee of any bank or other corporation subject to the provisions of this Act is eligible at the time of this election or selection to act for such bank or other corporation in such capacity his eligibility to act in such capacity shall not be affected and he shall not become or be deemed amenable to any of the provisions hereof by reason of any change in the affairs of such bank or other corporation from whatsoever cause, whether specifically excepted by any of the provisions hereof or not, until the expiration of one year from the date of his election or employment.

(Oct. 15, 1914, ch 323, § 8, 38 Stat 732; May 15, 1916, ch 120, 39 Stat 121; May 26, 1920, ch 206, 41 Stat 626; Mar. 9, 1928, ch 165, 45 Stat 253; Mar. 2, 1929, ch 581, 45 Stat 1536; Aug 23, 1935, ch 614, § 329, 49 Stat 717.)

§ 20 Purchases by common carriers in case of interlocking directorates, etc.

No common carrier engaged in commerce shall have any dealings in securities, supplies, or other articles of commerce, or shall make or have any contracts for construction or maintenance of any kind, to the amount of more than $50,000, in the aggregate, in any one year, with another corporation, firm, partnership, or association when the said common carrier shall have upon its board of directors or as its president, manager, or as its purchasing or selling officer, or agent in the particular transaction, any person who is at the same time a director, manager, or purchasing or selling officer of, or who has any substantial interest in, such other corporation, firm, partnership, or association, unless and except such purchases shall be made from, or such dealings shall be with, the bidder whose bid is the most favorable to such common carrier, to be ascertained by competitive bidding under regulations to be prescribed by rule or otherwise by the Interstate Commerce Commission. No bid shall be received unless the name and address of the bidder or the names and addresses of the officers, directors, and general managers thereof, if the bidder be a corporation, or of the members, if it be a partnership or firm, be given with the bid.

Any person who shall, directly or indirectly, do or attempt to do anything to prevent anyone from bidding, or shall do any act to prevent free and fair competition among the bidders or those desiring to bid, shall be punished as prescribed in this section in the case of an officer or director.

Every such common carrier having any such transactions or making any such purchases shall, within thirty days after making the same, file with the Interstate Commerce Commission a full and detailed statement of the transaction showing the manner of the competitive bidding, who were the bidders, and the names and addresses

of the directors and officers of the corporations and the members of the firm or partnership bidding; and whenever the said commission shall, after investigation or hearing, have reason to believe that the law has been violated in and about the said purchases or transactions, it shall transmit all papers and documents and its own views or findings regarding the transaction to the Attorney General.

If any common carrier shall violate this section, it shall be fined not exceeding $25,000; and every such director, agent, manager, or officer thereof who shall have knowingly voted for or directed the act constituting such violation, or who shall have aided or abetted in such violation, shall be deemed guilty of a misdemeanor and shall be fined not exceding $5,000 or confined in jail not exceeding one year, or both, in the discretion of the court.

(Oct. 15, 1914, ch 323, § 10, 38 Stat 734.)

§ 21 Enforcement provisions.

(a) Commissions and Boards authorized to enforce compliance.

Authority to enforce compliance with sections 13, 14, 18, and 19 of this title by the persons respectively subject thereto is vested in the Interstate Commerce Commission where applicable to common carriers subject to subtitle IV of title 49; in the Federal Communications Commission where applicable to common carriers engaged in wire or radio communication or radio transmission of energy; in the Civil Aeronautics Board where applicable to air carriers and foreign air carriers subject to the Civil Aeronautics Act of 1938; in the Board of Governors of the Federal Reserve System where applicable to banks, banking associations, and trust companies; and in the Federal Trade Commission where applicable to all other character of commerce to be exercised as follows:

(b) Issuance of complaints for violations; hearing; intervention; filing of testimony; report; cease and desist orders; reopening and alteration of reports or orders.

Whenever the Commission or Board vested with jurisdiction thereof shall have reason to believe that any person is violating or has violated any of the provisions of sections 13, 14, 18, and 19 of this title, it shall issue and serve upon such person and the Attorney General a complaint stating its charges in that respect, and containing a notice of a hearing upon a day and at a place therein fixed at least thirty days after the service of said complaint. The person so complained of shall have the right to appear at the place and time so fixed and show cause why an order should not be entered by the Commission or Board requiring such person to cease and desist from the violation of the law so charged in said complaint. The Attorney General shall have the right to intervene and appear in said proceeding and any person may make application, and upon good cause shown may be allowed by the Commission or Board, to intervene and appear in said proceeding by counsel or in person. The testimony in any such proceeding shall be reduced to writing and filed in the office of the Commission or Board. If upon such hearing the Commission or Board, as the case may be, shall be of the opinion that any of the provisions of said sections have been or are being violated, it shall make a report in writing, in which it shall state its findings as to the facts, and shall issue and cause to be served on such person an order requiring such person to cease and desist from such violations, and divest itself of the stock, or other share capital, or assets, held or rid itself of the directors chosen contrary to the provisions of sections 18 and 19 of this title, if any there be, in the manner and within the time fixed by said order. Until the expiration of the time allowed for filing a petition for review, if no such petition has been duly filed within such time, or, if a petition for review has been filed within such time then until the re-

cord in the proceeding has been filed in a court of appeals of the United States, as hereinafter provided, the Commission or Board may at any time, upon such notice and in such manner as it shall deem proper, modify or set aside, in whole or in part, any report or any order made or issued by it under this section. After the expiration of the time allowed for filing a petition for review, if no such petition has been duly filed within such time, the Commission or Board may at any time, after notice and opportunity for hearing, reopen and alter, modify, or set aside, in whole or in part, any report or order made or issued by it under this section, whenever in the opinion of the Commissioner or Board conditions of fact or of law have so changed as to require such action or if the public interest shall so require: *Provided, however,* That the said person may, within sixty days after service upon him or it of said report or order entered after such a reopening, obtain a review thereof in the appropriate court of appeals of the United States, in the manner provided in subsection (c) of this section.

(c) Review of orders; jurisdiction; filing of petition and record of proceeding; conclusiveness of findings; additional evidence; modification of findings; finality of judgment and decree.

Any person required by such order of the commission or board to cease and desist from any such violation may obtain a review of such order in the court of appeals of the United States for any circuit within which such violation occurred or within which such person resides or carries on business, by filing in the court, within sixty days after the date of the service of such order, a written petition praying that the order of the commission or board be set aside. A copy of such petition shall be forthwith transmitted by the clerk of the court to the commission or board, and thereupon the commission or board shall file in the court the record in the proceeding, as provided in section 2112 of title 28. Upon such filing of the petition

the court shall have jurisdiction of the proceeding and of the question determined therein concurrently with the commission or board until the filing of the record, and shall have power to make and enter a decree affirming, modifying, or setting aside the order of the commission or board, and enforcing the same to the extent that such order is affirmed, and to issue such writs as are ancillary to its jurisdiction or are necessary in its judgment to prevent injury to the public or to competitors pendente lite. The findings of the commission or board as to the facts, if supported by substantial evidence, shall be conclusive. To the extent that the order of the commission or board is affirmed, the court shall issue its own order commanding obedience to the terms of such order of the commission or board. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the proceeding before the commission or board, the court may order such additional evidence to be taken before the commission or board, and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. The commission or board may modify its findings as to the facts, or make new findings, by reason of the additional evidence so taken, and shall file such modified or new findings, which if supported by substantial evidence, shall be conclusive, and its recommendation, if any, for the modification or setting aside of its original order, with the return of such additional evidence. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme court upon certiorari, as provided in section 1254 of title 28.

(d) Exclusive jurisdiction of Court of Appeals.

Upon the filing of the record with its jurisdiction of the court of appeals to affirm, enforce, modify, or set aside orders of the commission or board shall be exclusive.

(e) Preference; liability under antitrust laws.

Such proceedings in the court of appeals shall be given precedence over other cases pending therein, and shall be in every way expedited. No order of the commission or board or judgment of the court to enforce the same shall in anywise relieve or absolve any person from any liability under the antitrust laws.

(f) Service of complaints, orders and other processes.

Complaints, orders, and other processes of the commission or board under this section may be serviced by anyone duly authorized by the commission or board, either (1) by delivering a copy thereof to the person to be served, or to a member of the partnership to be served, or to the president, secretary, or other executive officer or a director of the corporation to be served; or (2) by leaving a copy thereof at the residence or the principal office or place of business of such person; or (3) by mailing by registered or certified mail a copy thereof addressed to such person at his or its residence or principal office or place of business. The verified return by the person so serving said complaint, order, or other process setting forth the manner of said service shall be proof of the same, and the return post office receipt for said complaint, order, or other process mailed by registered or certified mail as aforesaid shall be proof of the service of the same.

(g) Finality of orders generally.

Any order issued under subsection (b) of this section shall become final—

(1) upon the expiration of the time allowed for filing a petition for review, if no such petition has been duly filed within such time; but the commission or board may there-

after modify or set aside its order to the extent provided in the last sentence of subsection (b) of this section; or

(2) upon the expiration of the time allowed for filing a petition for certiorari, if the order of the commission or board has been affirmed, or the petition for review has been dismissed by the court of appeals, and no petition for certiorari has been duly filed; or

(3) upon the denial of a petition for certiorari, if the order of the commission or board has been affirmed or the petition for review has been dismissed by the court of appeals; or

(4) upon the expiration of thirty days from the date of issuance of the mandate of the Supreme Court, if such Court directs that the order of the commission or board be affirmed or the petition for review be dismissed.

(h) Finality of orders modified by Supreme Court.

If the Supreme Court directs that the order of the commission or board be modified or set aside, the order of the commission or board rendered in accordance with the mandate of the Supreme Court shall become final upon the expiration of thirty days from the time it was rendered, unless within such thirty days either party has instituted proceedings to have such order corrected to accord with the mandate, in which event the order of the commission or board shall become final when so corrected.

(i) Finality of orders modified by Court of Appeals.

If the order of the commission or board is modified or set aside by the court of appeals, and if (1) the time allowed for filing a petition for certiorari has expired and no such petition has been duly filed, or (2) the petition for certiorari has been denied, or (3) the decision of the court has been affirmed by the Supreme Court then the order of the commission or board rendered in accordance with the mandate of the court of appeals shall become final on

the expiration of thirty days from the time such order of the commission or board was rendered, unless within such thirty days either party has instituted proceedings to have such order corrected so that it will accord with the mandate, in which event the order of the commission or board shall become final when so corrected.

(j) Finality of orders issued on rehearing ordered by Court of Appeals or Supreme Court.

If the Supreme Court orders a rehearing; or if the case is remanded by the court of appeals to the commission or board for a rehearing, and if (1) the time allowed for filing a petition for certiorari has expired, and no such petition has been duly filed, or (2) the petition for certiorari has been denied, or (3) the decision of the court has been affirmed by the Supreme Court, then the order of the commission or board rendered upon such rehearing shall become final in the same manner as though no prior order of the commission or board had been rendered.

(k) Definition of mandate.

As used in this section the term "mandate", in case a mandate has been recalled prior to the expiration of thirty days from the date of issuance thereof, means the final mandate.

(l) Penalties.

Any person who violates any order issued by the commission or board under subsection (b) of this section after such order has become final, and while such order is in effect, shall forfeit and pay to the United States a civil penalty of not more than $5,000 for each violation, which shall accrue to the United States and may be recovered in a civil action brought by the United States. Each separate violation of any such order shall be a separate offense, except that in the case of a violation through continuing failure or neglect to obey a final order of the

commission or board each day of continuance of such failure or neglect shall be deemed a separate offense.

(Oct, 15, 1914, ch 323, § 11. 38 Stat 734; June 19, 1934, ch 652, § 602(d), 48 Stat 1102; Aug. 23, 1935, ch 614, § 203(a), 49 Stat 704; June 23, 1938, ch 601, § 1107(g), 52 Stat 1028; June 25, 1948, ch 646, § 32(a), 62 Stat 991; May 24, 1949, ch 139, § 127, 63 Stat 107; Dec. 29, 1950, ch 1184, 64 Stat 1125; Aug. 23, 1958 Pub L 85-726, title XIV, § 1401(b), 72 Stat 806; Aug. 28, 1958, Pub L 85-791, § 4, 72 Stat 943; July 23, 1959. Pub L 86-107, § 1, 73 Stat 243.)

§ 22 District in which to sue corporation.

Any suit, action, or proceeding under the antitrust laws against a corporation may be brought not only in the judicial district whereof it is an inhabitant, but also in any district wherein it may be found or transacts business; and all process in such cases may be served in the district of which it is an inhabitant, or wherever it may be found.

(Oct. 15, 1914, ch 323, § 12, 38 Stat 736.)

§ 23 Suits by United States; subpoenas for witnesses.

In any suit, action, or proceeding brought by or on behalf of the United States subpoenas for witness who are required to attend a court of the United States in any judicial district in any case, civil or criminal, arising under the antitrust laws may run into any other district: *Provided,* That in civil cases no writ of subpoena shall issue for witnesses living out of the district in which the court is held at a greater distance than one hundred miles from the place of holding the same without the permission of the trial court being first had upon proper application and cause shown.

(Oct. 15, 1914, ch 323, § 13, 38 Stat 736.)

§ 24 Liability of directors and agents of corporation.

Whenever a corporation shall violate any of the penal provisions of the antitrust laws, such violation shall be deemed to be also that of the individual directors, officers, or agents of such corporation who shall have authorized, ordered, or done any of the acts constituting in whole or in part such violation, and such violation shall be deemed a misdemeanor, and upon conviction therefor of any such director, officer, or agent he shall be punished by a fine of not exceeding $5,000 or by imprisonment for not exceeding one year, or by both, in the discretion of the court.

(Oct. 15, 1914, ch 323, § 14, 38 Stat 736.)

§ 25 Restraining violations; procedure.

The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of this Act, and it shall be the duty of the several United States attorneys, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition, the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition, and before final decree, the court may at any time make such temporary restraining order or prohibition as shall be deemed just in the premises. Whenever it shall appear to the court before which any such proceeding may be pending that the ends of justice require that other parties should be brought before the court, the court may cause them to be summoned whether they reside in the district in which the court is held or not, and subpoenas to that end may be served in any district by the marshal thereof.

(Oct. 15, 1914, ch 323, § 15, 38 Stat 736; June 25, 1948, ch 646,, § 1, 62 Stat 909.)

§ 26 Injunctive relief for private parties; exception; costs.

Any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the antitrust laws, including sections 13, 14, 18, and 19 of this title, when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings, and upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of irreparable loss or damage is immediate, a preliminary injunction may issue: *Provided,* That nothing herein contained shall be construed to entitle any person, firm, corporation, or association, except the United States, to bring suit in equity for injunctive relief against any common carrier subject to the provisions of subtitle IV of title 49, in respect of any matter subject to the regulation, supervision, or other jurisdiction of the Interstate Commerce Commission. In any action under this section in which the plaintiff substantially prevails, the court shall award the cost of suit, including a reasonable attorney's fee, to such plaintiff.

(Oct. 15, 1914, ch 323, § 16, 38 Stat 737; Sept. 30, 1976, Pub L 94-435, title III, § 302(3), 90 Stat 1396.)

§ 52 Statutory restriction of injunctive relief.

No restraining order or injunction shall be granted by any court of the United States, or a judge or the judges thereof, in any case between an employer and employees, or between employers and employees, or between employees, or between persons employed and persons seeking employment, involving, or growing out of, a dispute concerning terms or conditions of employment, unless necessary to prevent irreparable injury to property, or to a property right, of the party making the application, for

which injury there is no adequate remedy at law, and such property or property right must be described with particularity in the application, which must be in writing and sworn to by the applicant or by his agent or attorney.

And no such restraining order or injunction shall prohibit any person or persons, whether singly or in concert, from terminating any relation of employment, or from ceasing to perform any work or labor, or from recommending, advising, or persuading others by peaceful means so to do; or from attending at any place where any such person or persons may lawfully be, for the purpose of peacefully obtaining or communicating information, or from peacefully persuading any person to work or to abstain from working; or from ceasing to patronize or to employ any party to such dispute, or from recommending, advising, or persuading others by peaceful and lawful means so to do; or from paying or giving to, or withholding from, any person engaged in such dispute, any strike benefits or other moneys or things of value; or from peaceably assembling in a lawful manner, and for lawful purposes; or from doing any act or thing which might lawfully be done in the absence of such dispute by any party thereto; nor shall any of the acts specified in this paragraph be considered or held to be violations of any law of the United States.

(Oct. 15, 1914, ch 323, § 20, 38 Stat 738.)

§ 26a Restrictions on the purchase of gasohol and synthetic motor fuel.

(a) Limitations on the use of credit instruments; sales, resales, and transfers.

Except as provided in subsection (b) of this section, it shall be unlawful for any person engaged in commerce, in the course of such commerce, directly or indirectly to impose any condition, restriction, agreement, or understanding that—

(1) limits the use of credit instruments in any transaction concerning the sale, resale, or transfer of gasohol or other synthetic motor fuel of equivalent usability in any case in which there is no similar limitation on transactions concerning such person's conventional motor fuel; or

(2) otherwise unreasonably discriminates against or unreasonably limits the sale, resale, or transfer of gasohol or other synthetic motor fuel of equivalent usability in any case in which such synthetic or conventional motor fuel is sold for use, consumption, or resale within the United States.

(b) Credit fees; equivalent conventional motor fuel sales; labeling of pumps; product liability disclaimers; advertising support; furnishing facilities.

(1) Nothing in this section or in any other provision of law in effect on December 2, 1980, which is specifically applicable to the sale of petroleum products shall preclude any person referred to in subsection (a) of this section from imposing a reasonable fee for credit on the sale, resale, or transfer of the gasohol or other synthetic motor fuel referred to in subsection (a) of this section if such fee equals no more than the actual costs to such person of extending that credit.

(2) The prohibitions in this section shall not apply to any person who makes available sufficient supplies of gasohol and other synthetic motor fules of equivalent usability to satisfy his customers' needs for such products, if the gasohol and other synthetic fuels are made available on terms and conditions which are equivalent to the terms and conditions on which such persons' conventional motor fuel products are made available.

(3) Nothing in this section shall—

(A) preclude any person referred to in subsection (a) of this section from requiring reasonable labeling of pumps dispensing the gasohol or other synthetic motor fuel re-

ferred to in subsection (a) of this section to indicate, as appropriate, that such gasohol or other synthetic motor fuel is not manufactured, distributed, or sold by such person;

(B) preclude such person from issuing appropriate disclaimers of product liability for damage resulting from use of the gasohol or other synthetic motor fuel;

(C) require such person to provide advertising support for the gasohol or other synthetic motor fuel; or

(D) require such person to furnish or provide, at such person's own expense, any additional pumps, tanks, or other related facilities required for the sale of the gasohol or other synthetic motor fuel.

(c) Definition.

As used in this section, "United States" includes the several State, the District of Columbia, any territory of the United States, and any insular possession or other place under the jurisdiction of the United States.

(Oct. 15, 1914, ch 323, § 26, as added Dec. 2, 1980, Pub L 96-493, § 2, 94 Stat 2568.)

§ 27 Effect of partial invalidity.

If any clause, sentence, paragraph, or part of this Act shall, for any reason, be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder thereof, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

(Oct. 15, 1914, ch 323, § 27, formerly § 26, 38 Stat 740, renumbered Dec. 2, 1980, Pub L 96-493, § 2, 94 Stat 2568.)

Patent Cooperation Treaty

**Done at Washington on June 19, 1970,
amended on October 2, 1979,
and modified on February 3, 1984**

ARTICLE 17

Procedure before the International Searching Authority

(1) Procedure before the International Searching Authority shall be governed by the provisions of this Treaty, the Regulations, and the agreement which the International Bureau shall conclude, subject to this treaty and the Regulations, with the said Authority.

(2)(a) If the International Searching Authority considers

(i) that the international application relates to a subject matter which the International Searching Authority is not required, under the Regulations, to search, and in the particular case decides not to search, or

(ii) that the description, the claims, or the drawings, fail to comply with the prescribed requirements to such an extent that a meaningful search could not be carried out, the said Authority shall so declare and shall notify the applicant and the International Bureau that no international search report will be established.

(b) If any of the situations referred to in subparagraph (a) is found to exist in connection with certain claims only, the international search report shall so indicate in respect of such claims, whereas, for the other claims, the said report shall be established as provided in Article 18.

(3)(a) If the International Searching Authority considers that the international application does not comply with the requirement of unity of invention as set forth in the Regulations, it shall invite the applicant to pay additional fees. The International Searching Authority shall establish the

international search report on those parts of the international application which relate to the invention first mentioned in the claims ("main invention") and, provided the required additional fees have been paid within the prescribed time limit, on those parts of the international application which relate to inventions in respect of which the said fees were paid.

(b) The national law of any designated State may provide that, where the national Office of that State finds the invitation, referred to in subparagraph (a), of the International Searching Authority justified and where the applicant has not paid all additional fees, those parts of the international application which consequently have not been searched shall, as far as effects in that State are concerned, be considered withdrawn unless a special fee is paid by the applicant to the national Office of that State.

ARTICLE 19

Amendment of the Claims before the International Bureau

(1) The applicant shall, after having received the international search report, be entitled to one opportunity to amend the claims of the international application by filing amendments with the International Bureau within the prescribed time limit. He may, at the same time, file a brief statement, as provided in the Regulations, explaining the amendments and indicating any impact that such amendments might have on the description and the drawings.

(2) The amendments shall not go beyond the disclosure in the international application as filed.

(3) If the national law of any designated State permits amendments to go beyond the said disclosure, failure to comply with paragraph (2) shall have no consequence in that State.

ARTICLE 20

Communication to Designated Offices

(1)(a) The international application, together h the international search report (including any indication referred to in Article 17(2)(b)) or the declaration referred to in Article 17(2)(a), shall be communicated to each designated Office, as provided in the Regulations, unless the designated Office waives such requirement in its entirety or in part.

(b) The communication shall include the translation (as prescribed) of the said report or declaration.

(2) If the claims have been amended by virtue of Article 19(1), the communication shall either contain the full text of the claims both as filed and as amended or shall contain the full text of the claims as filed and specify the amendments, and shall include the statement, if any, referred to in Article 19(1).

(3) At the request of the designated Office or the applicant, the International Searching Authority shall send to the said Office or the applicant, respectively, copies of the documents cited in the international search report, as provided in the Regulations.

ARTICLE 22

Copy, Translation, and Fee, to Designated Offices

(1) The applicant shall furnish a copy of the international application (unless the communication provided for in Article 20 has already taken place) and a translation thereof (as prescribed), and pay the national fee (if any), to each designated Office not later than at the expiration of 20 months from the priority date. Where the national law of the designated State requires the indication of the name of and other prescribed data concerning the inventor but allows that these indications be furnished at a time later

than that of the filing of a national application, the applicant shall, unless they were contained in the request, furnish the said indications to the national Office of or acting for the State not later than at the expiration of 20 months from the priority date.

(2) Where the International Searching Authority makes a declaration, under Article 17(2)(a), that no international search report will be established, the time limit for performing the acts referred to in paragraphs (1) of this Article shall be the same as that provided for in paragraph (1).

(3) Any national law may, for performing the acts referred to in paragraph (1) or (2), fix time limits which expire later than the time limit provided for in those paragraphs.

ARTICLE 29

Effects of the International Publication

(1) As far as the protection of any rights of the applicant in a designated State is concerned, the effects, in that State, of the international publication of an intentional application shall, subject to the provisions of paragraphs (2) to (4), be the same as those which the national law of the designated State provides for the compulsory national publication of unexamined national applications as such.

(2) If the language in which the international publication has been effected is different from the language in which publications under the national law are effected in the designated State, the said national law may provide that the effects provided for in paragraph (1) shall be applicable only from such time as:

(i) a translation into the latter language has been published as provided by the national law, or

(ii) a translation into the latter language has been made available to the public, by laying open for public inspection as provided by the national law, or

(iii) a translation into the latter language has been transmitted by the applicant to the actual or perspective unauthorized user of the invention claimed in the international application, or

(iv) both the acts described in (i) and (iii), or both the acts described in (ii) and (iii), have taken place.

(3) The national law of any designated State may provide that, where the international publication has been effected, on the request of the applicant, before the expiration of 18 months from the priority date, the effects provided for in paragraph (1) shall be applicable only from the expiration of 18 months from the priority date.

(4) The national law of any designated State may provide that the effects provided for in paragraph (1) shall be applicable only from the date on which a copy of the international application as published under Article 21 has been received in the national Office of or acting for such State. The said Office shall publish the date of receipt in its gazette as soon as possible.

ARTICLE 55

International Bureau

(1) Administrative tasks concerning the Union shall be performed by the International Bureau.

(2) The International Bureau shall provide the secretariat of the various organs of the Union.

(3) The Director General shall be the chief executive of the Union and shall represent the Union.

(4) The International Bureau shall publish a Gazette and other publications provided for by the Regulations or required by the Assembly.

(5) The Regulations shall specify the services that national Offices shall perform in order to assist the International Bureau and the International Searching and Preliminary Examining Authorities in carrying out their tasks under this Treaty.

(6) The Director General and any staff member designated by him shall participate, without the right to vote, in all meetings of the Assembly, the Executive Committee and any other committee or working group established under this Treaty or the Regulations. The Director General, or a staff member designated by him, shall be *ex officio* secretary of these bodies.

(7)(a) The International Bureau shall, in accordance with the directions of the Assembly and in cooperation with the Executive Committee, make the preparations for the revision conferences.

(b) The International Bureau may consult with intergovernmental and international non-governmental organizations concerning preparations for revision conferences.

(c) The Director General and persons designated by him shall take part, without the right to vote, in the discussions at revision conferences.

(8) The International Bureau shall carry out any other tasks assigned to it.

ARTICLE 64

Reservations

(1)(a) Any State may declare that it shall not be bound by the provisions of Chapter II.

(b) States making a declaration under subparagraph (a) shall not be bound by the provisions of Chapter II and the corresponding provisions of the Regulations.

(2)(a) Any State not having made a declaration under paragraph (1)(a) may declare that:

(i) it shall not be bound by the provisions of Article 39(1) with respect to the furnishing of a copy of the international application and a translation thereof (as prescribed),

(ii) the obligation to delay national processing, as provided for under Article 40, shall not prevent publication, by or through its national Office, of the international application or a translation thereof, it being understood, however, that it is not exempted from the limitations provided for in Articles 30 and 38.

(b) States making such a declaration shall be bound accordingly.

(3)(a) Any State may declare that, as far as it is concerned, international publication of international applications is not required.

(b) Where, at the expiration of 18 months from the priority date, the international application contains the designation only of such States as have made declarations under subparagraph (a), the international application shall not be published by virtue of Article 21(2).

(c) Where the provisions of subparagraph (b) apply, the international application shall nevertheless be published by the International Bureau:

(i) at the request of the applicant, as provided in the Regulations,

(ii) when a national application or a patent based on the international application is published by or on behalf of the national Office of any designated State having made a declaration under subparagraph (a), promptly after such publication but not before the expiration of 18 months from the priority date.

(4)(a) Any State whose national law provides for prior art effect of its patents as from a date before publication, but does not equate for prior art purposes the priority

date claimed under the Paris Convention for the Protection of Industrial Property to the actual filing date in that State, may declare that the filing outside that State of an international application designating that State is not equated to an actual filing in that State for prior art purposes.

(b) Any State making a declaration under subparagraph (a) shall to that extent not be bound by the provisions of Article 11(3).

(c) Any State making a declaration under subparagraph (a) shall, at the same time, state in writing the date from which, and the conditions under which, the prior art effect of an international application designating that State becomes effective in that State. This statement may be modified at any time by notification addressed to the Director General.

(5) Each State may declare that it does not consider itself bound by Article 59. With regard to any dispute between any Contracting State having made such a declaration and any other Contracting State, the provisions of Article 59 shall not apply.

(6)(a) Any declaration made under this Article shall be made in writing. It may be made at the time of signing this Treaty, at the time of depositing the instrument of ratification or accession, or, except in the case referred to in paragraph (5), at any later time by notification addressed to the Director General. In the case of the said notification, the declaration shall take effect six months after the day on which the Director General has received the notification, and shall not affect international applications filed prior to the expiration of the said six-month period.

(b) Any declaration made under this Article may be withdrawn at any time by notification addresed to the Director General. Such withdrawal shall take effect three months

after the day on which the Director General has received the notification and, in the case of the withdrawal of a declaration made under paragraph (3), shall not affect international applications filed prior to the expiration of the said three-month period.

(7) No reservations to this Treaty other than the reservations under paragraphs (1) to (5) are permitted.

APPENDIX B

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF LENAWEE

FILE 82-10-1709-CZ

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED, a Michigan corporation, jointly and severally,

Plaintiffs,

vs

CHEMICAL ENGINEERING CORPORATION, an Indiana corporation; ROBERT M. WILFONG, RUDY WILFONG, and LAWRENCE D. GORDON: HILLSDALE PUMP AND SUPPLY CO., a Michigan corporation; and CLYMER'S GEOTHERMAL HEATING AND COOLING, a Michigan corporation, jointly and severally,

Defendants.

PRETRIAL STATEMENT

before THE HONORABLE JOHN C. TIMMS, Circuit Judge, at the Rex B Martin Judicial Building, in the City of Adrian, Michigan, on March 30, 1983.

APPEARANCES:

DEE EDWARDS, ESQ.
On behalf of Plaintiffs.

DAVID A. LUNDY, ESQ.
On behalf of Defendants.

Rodney J. Skow, CSR-0275
Circuit Reporter

* * *

THE COURT: We have discussed trial procedure. We will take up the questions of liability on both the complaint and the counterclaim, and then, depending upon what the liability is, we will take up at some other time the question of damages. Post-trial briefs should be submitted within fifteen days after the trial ends.

* * *

APPENDIX C

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF LENAWEE

File No. 82-1709 CZ

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED, A Michigan Coporation jointly and severally,

Plaintiffs

v.

CHEMICAL ENGINEERING CORP. an Indiana Corporation; ROBERT M. WILFONG, RUDY WILFONG, and LAWRENCE D. GORDON: HILLSDALE PUMP AND SUPPLY CO., a Michigan Corporation, and CLYMER'S GEOTHERMAL HEATING AND COOLING, a Michigan Corporation, jointly and severally,

Defendants

DEFENDANTS' POST TRIAL BRIEF

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* * *

In order to recover damages, Plaintiffs must additionally prove the existence of the trade secrets both (1) when the trade secret information was disclosed to Defendants and (2) when Defendants allegedly misappropriated the trade secret information. *Kubik v. Hull,* 56 Mich. App. 335, 224 N.W. 2nd 80, (1974). If the information disclosed to Defendants was not trade secret either when it was disclosed to Defendants or when Defendants alleged misap-

propriated the information, Plaintiffs cannot recover. *Lear v. Adkins, Inc.*, 395 U.S. 653 (1969); and *Kewanee Oil Company v. Bicron Corp.*, 416 U.S. 470 (1974) A state may not make public information subject to its trade secret law.

Plaintiff cannot have injunctive relief unless Plaintiff further can prove that the information disclosed to Defendants is a trade secret *now. Kubik, supra,*

Here, for reasons more fully explained hereinafter, none of the information conveyed to Defendants by Plaintiffs is a trade secret now, nor was a trade secret at the time Defendants allegedly misappropriated Plaintiffs' information. Any trade secret of Plaintiffs was destroyed by either by Gerald Greiwahn or by Plaintiffs themselves.

* * *

Information that is generally known or readily ascertainable to the trade or public is not trade secret. *Kubik, supra; Arco, supra; Manos, supra; Allis-Chalmers Manufacturing Co. v. Continental Aviation and Engineering Corp.*, 2554 Supp. 645, (E.D. Mich. 1966); *McAlpine v. Aamco Automatic Transmissions*, 461 F. Supp. 1232 (E.D. Mich. 1978) *Russell, supra; Hamilton, supra.* It is not trade secret, even if it is not known to the Defendant prior to disclosure. *Manos, supra; Kubik, supra.* The legal rational is that a state may not make public information subject to trade secret. *Lear, Inc. v. Adkins, supra; Kewanee Oil Co., supra.*

Information which is disclosed in a product or process being sold cannot be trade secret. *Kubik, supra; Allis-Chalmers, supra; Crown, Industries, supra.* Information is disclosed in a marketed product if the information could be discovered by disassembling or rendering the product inoperative and study by an engineer. *Crown Industries, supra.*

Information disclosed in a patent or publication cannot be trade secret. *Davis, supra; Dow Chemical, supra; Manos, supra; Russell, supra; Insealator, supra; Crown Industries, supra; Kubik, supra.* This includes information disclosed to the public in a patent application, *Kubik, supra.* This rule may be viewed as another way of stating the novelty requirement; that is: any information disclosed in a patent or publication is in the public domain and not novel. *Crown, Industries, supra.* It makes no difference whether the information is disclosed in a patent or in another publication. *Plastic and Metal Fabricators, Inc. v. Roy,* 163 Conn. 257 303 A 2d 725, (1972).

Information which is *not* novel and which is only a trivial advance or difference and which does not give a competitive advantage is not trade secret. *Davis, supra; Crown Industries, supra; Kubik, supra; Manos, supra; McAlpine, supra.* The novelty requirement was presented by the United States Supreme court in *Kewanee, supra,* however, this requirement has long been a rule of Michigan trade secret law. *Manos, supra; Russell, supra; Kubik, supra.* Information to be trade secret must differ materially from prior art. *Davis, supra; Nickelson v. General Motors Corp.,* 361 F. 2d 196 (7th Cir. 1966). It cannot be a mere mechanical improvement. *Allis-Chalmers, supra; Russell, supra* or trivial advance, *Nickelson, supra,* or variation of a known general process. *Hamilton, supra.* the information cannot be the product of customary experimentation and testing *David, supra.* It is not relevant that Plaintiff may have produced the product without knowledge of the prior art. *Houser v. Snap-On Tools Corp.,* 202 F. Supp. 181 (D. Mary, 1962).

* * *

2. At The Time Of Disclosure And Presently Mrs. Paterson filed three applications in the United States Patent and Trademark Office for Letters Patents. The first is U.S. Patent Application, Serial Number 103,322 filed on

December 14, 1979. The second is U.S. Patent Application, Serial Number 145,657 filed on May 2, 1980. The third is U.S. Patent Application, Serial Number 210,923 filed on November 28, 1980. Mrs. Paterson then filed an application for a European Letters Patent on December 15, 1980. Exhibit G. Under the conventions between countries, Mrs. Paterson incorporated all of the disclosure of each of her United States Patent Applications into European Patent Application Serial Number 80107918.7 and claimed priority. Professor Baumann testified:

"Q. Let me, Dr. Baumann, refer you to Defendants' Exhibit G. Are you familiar with this document?

A. Yes, I am.

Q. And so that everybody knows what it is, can you identify it?

A. Yes. Defendants' Exhibit G is the Rueopan [sic] Patent Application of Laurene O. Paterson pertaining to her iron removal unit.

Q. Do you have any awareness of—well, let me ask you this: Have you had an opportunity to read and study this document, Exhibit G?

A. Yes, I have.

Q. Do you have any awareness of any other applications—patent applications that have been filed by Mrs. Paterson?

A. Yes.

Q. Now, have you read the content of those?

A. Yes, I have.

And do you have any knowledge as to the relationship of this patent application to all of the others?

A. Yes. The European applications make references to all prior knowledge which has been contained in

other patent applications by Mrs. Paterson. Item 30 on the patent application indicates, for example, a priority date of 14-12-79, U.S. Patent Application Number 103322; then the date 2-5-80, U.S. Patent Application Number 145657, and the date 28-11-80, U.S. Patent Application 210923. I read those patent applications and they are included in the European Patent Application.

Q. Those dates then and numbers identify her prior United States Patent Applications?

A. Yes, sir."

James Kinzer testified:

"Q. Now, may I refer you to a document that has been identified as Defendants' Exhibit G, Mr. Kinzer—

The Court: (Handing).

The Witness: Thank you, Your Honor.

Q. Now, can you by looking at this document identify what that is?

A. Yes, this is a certification of a European Patent Application."

* * *

Q. Now, Mr. Kinzer, this being a patent application in Europe—let me ask you this, when is the patent application in Europe published?

A. That is published on the basis of two dates. If the convention date is involved, Judge, that is, the inventor has applied in Europe within a year of filing in the United States; then the European application will publish 18 months after the filing date in the United States. And if it's not based on the United States application, it will then publish 18 months after the filing date in Europe.

Q. Okay. Does the inventor have any control over when it's published?

A. No, there's no control over that. Sometimes it can be an embarassing situation. I've been embarassed a couple of times.

Q. And how do they, if you know, how do they publish this application?

A. Well, I'm not familiar with their release procedures or their printing procedures, but again, once the 18-month period has expired, then it can be expected that the European Patent Application is going to be published and available in Munich.

Q. Is it distributed throughout the world, the United States Application?

A. Again, any interested company who is participating with the European Patent Office, and which has distribution centers, they are likely to distribute too, because these are valuble scientific papers, there's no question about it.

Q. To your knowledge, those places in the world where you to in search through copies —

A. Undoubtedly the Japanese Patent Office and also our own.

Q. Now, are there requirements of a European Patent Application as to the contents of the disclosure and to whom it's written, or is that similar to the United States Patent Office, as you understand it?

A. I'm not that thoroughly familiar with the form regulations as to the content of disclosure, but based on my experience I know, as a matter of fact, for 31 years the examination in Europe is as rigorous as it is in the United States. Their requirements for disclosure are also rigorous.

Q. Okay.

A. This is particularly true in Germany and Sweden.

Q. From your experience is the disclosure in European Applications directed to minds skilled in the art?

A. Again, there's no question about that, but almost invariably is based on the United States Patent Application. I've never seen European Application fail for lack of proper disclosure once it's been found on the United States disclosure—which it is found acceptable.

Q. Does the examiner over in Europe check through these applications to determine whether or not the content of the application meets the regulations

A. Absolutely. I, myself, have been questioned through the associates through whom we work and my own office has been questioned sometimes, "What do you mean by this statement, what do you mean by that statement? Are your parts by weight or are your parts percentages by volume," that sort of thing.

Q. Now, Mr. Kinzer, from looking at this document, can you make a determination as to when this document, Defendants' Exhibit G was published?

A. This document was published in Europe on June 24, 1981, in the European system it's marked 24-6-81.

Mrs. Paterson's European Patent Application was published by the European Patent Office on June 24, 1981 as Publication No. 0030733. This publication included everything contained in Exhibit G. Plaintiffs have stipulated that:

"* * * I'm willing to stipulate that there's a disclosure of the injector, disclosure of filter bed and the other things. There's no disclosure of the specific Dema

valve by name, the type of valve that was described in here, and also the type of various types of filter beds which will attract and electrostatically attract colloidal particles was disclosed in here, and the fact that this injector makes colloidal particles containing iron in the water. It's all in here. To have her sit here and have her read this for the next hour or so is total waste of time. The document speaks for itself. I'm willing to stipulate to that.

The Court: All right.

Mr. Lundy: That all trade secrets we're talking about are in that document?

Mr. Harness: Everything is in here, ther's no specific reference to the Dema valve, Dema injectors as such. The name Dema—

Mr. Lundy: That stipulation is accepted, Your Honor.

The Court: Very well."

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* * *

C. The Paterson Iron Removal System Was Disclosed In Patents

Mrs. Paterson's European Patent Application was published by the European Patent Office on June 24, 1981 as Publication No. 0030733. This publication included, everything contained in Exhibit G. Plaintiffs have stipulated that:

"* * * I'm willing to stipulate that there's a disclosure of the injector, disclosure of filter bed and the other things. There's no disclosure of the specific Dema valve by name, the type of valve that was described in here, and also the type of various types of filter

beds which will attract and electrostatically attract colloidal particles was disclosed in here, and the fact that this injector makes colloidal particles containing iron in the water. It's all in here. To have her sit here and have her ead this for the next hour or so is total waste of time. The document speaks for itself. I'm willing to stipulate to that.

The Court: All right.

Mr. Lundy: That all trade secrets we're talking about are in that document?

Mr. Harness: Everything is in here, there's no specific reference to the Dema valve, Dema injectors as such. The name Dema—

Mr. Lundy: That stipulation is accepted, Your Honor.

The Court: Very well."

Professor Baumann testified, after being present in the Court Room during all of the testimony of every witness that:

"Q. To your knowledge, Professor Baumann, has there been any testimony in this Court with regard to identifying any portion of the technology of removing iron originating with Mrs. Paterson that is not found within this document, Exhibit G?

A. I'm not aware of any."

Thus, by Mrs. Paterson's own efforts, all of Mrs. Paterson's information was disclosed in her patent.

* * *

APPENDIX D

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF LENAWEE

File No. 82-1709 CZ

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED, A Michigan Corporation jointly and severally,
Plaintiffs

v.

CHEMICAL ENGINEERING CORP. an Indiana Corporation; ROBERT M. WILFONG, RUDY WILFONG, and LAWRENCE D. GORDON: HILLSDALE PUMP AND SUPPLY CO., a Michigan Corporation, and CLYMER'S GEOTHERMAL HEATING AND COOLING, a Michigan Corporation, jointly and severally,
Defendants

DEFENDANTS' POST TRIAL REPLY BRIEF

* * *

II. THE EXISTENCE OF TRADE SECRET INFORMATION

Plaintiffs allege that Plaintiffs currently have trade secrets. (Post Trial Brief For Plaintiffs, P. 2) They make that allegation despite their own admission that "the trade secrets have now become available to the public", (Post Trial Brief for Plaintiff, p.8) and Michigan law establishing that any information in the public domain cannot be trade secret. *Kubik, Inc. v. Hull,* 56 Mich App. 335, 224 N.W. 2d 80 (1974), *Russell v. Wall Wire Products Co.,* 346 Mich

581, 78 N.W. 2d 149, (1956), *Insealator, Inc. v. Wallace*, 357 Mich 233, 98 N.W. 2d 643 (1959), *Allis-Chalmers Manufacturing Co. v. Continental Aviation and Engineering Corp*, 255 F. Supp. 645 (E.D. Mich. 1966).

Plaintiffs' allegation of a currently existing trade secret relies upon a finding of trade secrets in *Paterson v. Water Specialties, Inc.* No. 81-02-0181 CZ an earlier action in this Court involving different parties. Plaintiffs have not and cannot support their position with law or logic. A Trade secret, unlike a patent, is not a continuing legal right to restrict the use of specific information. *Kubik, supra* It is rather a determination by the trier of fact based upon the evidence presented before the Court. *Kubik, supra* Such a determination binds only the parties before the Court, not totally unrelated third parties such as Defendants. Plaintiffs had the burden in this action of presenting evidence before *this Court* to establish the existence of their alleged trade secrets *at the times at issue here,* not at the times at issue in *Water Specialties.* Plaintiffs have failed to meet that burden.

Plaintiffs have admitted that they have no trade secrets now. They have failed to prove that they had trade secrets when Defendants first conferred with Mrs. Paterson regarding iron removal (April 11, 1980), and when Defendants are alleged to have misappropriated them. The Findings of the Court in *Water Specialties* do not support Plaintiffs in this action. In fact, the opposite is true. The Court, in *Water Specialties* ruled that: "The whole system here has been sold to members of the public. Any buyer or his assignee can take the system apart and duplicate the components." Under Michigan law any trade secret disclosed in a product is destroyed by the marketing of that product. *Kubik, Inc., supra; Allis-Chalmers, supra; Crown Industries, Inc. v. Kawneer, Co., Inc.*, 335 F. Supp. 749 (Mich. law, N.D. Ill. 1971). See also Defendants Post Trial Brief, P. 15-69.

* * *

However, Plaintiffs burden is not to prove that she took steps to maintain the secrecy of the information, but rather to prove that the information *was still secret and not readily ascertainable by the public and the trade.* No "steps to guard secrecy" can make information secret once it has been revealed to the public or if it is readily ascertainable by the public or the trade. *Kubik, supra.*

Plaintiffs allege in their Post Trial Brief For Plaintiffs that "Plaintiffs' trade secret information was not readily ascertainable". (P.6) The proof Plaintiffs presented on this point was directed to the "average individual", not to the point of use water conditioning industry. The requirements of a trade secret under Michigan law provide that the trade secret information must not have been readily ascertainable to the general public *including persons in the trade and Plaintiffs' competitors. Insealator, Inc. v. Wallace,* 357 Mich. 233, 98 N.W. 2d 643 (1959); *Kubik, supra.* The issue here is not whether an unskilled person could understand and duplicate the Paterson system from a marketed unit but rather whether a competitor using skilled personnel and knowing the prior art, *including* the McLean patent could understand and duplicate the Paterson system from a marketed unit but rather whether a competitor using skilled personnel and knowing the prior art, *including* the McLean patent could understand and duplicate the Paterson system from a marketed unit. As Mr. Roger Raje testified, his cousin who worked in the water treatment industry described the basics of how the Paterson unit operated, after just looking at it without even taking it apart. (TR P. 467-469) See also Professor Baumann's testimony at P. 31-32 Defendants' Post Trial Brief and Tr. P724-725.

Paterson units were sold to the general public on an unrestricted basis long before the Defendants met Mrs. Paterson (TR P. 467-469) Plaintiffs' trade secrets were

also completely disclosed in Mrs. Paterson's European patent application. (Tr. P691-692) Plaintiffs have not met their burden of proving that those units and that patent application did not reveal and destroy their trade secrets.

Plaintiffs allege that, although "the trade secrets have now become available to the public", "this does not negate the secrecy of the information to the present Defendants because they failed to employ legal proper and fair means in learning the secrets." (Post Trial Brief For Plaintiff, P.8)

APPENDIX E

STATE OF MICHIGAN

IN THE CIRCUIT COURT FOR THE COUNTY OF LENAWEE

File No. 82-10-1709

LAURENE O. PATERSON, *et al*,

Plaintiffs

v.

CHEMICAL ENGINEERING, CORP., *et al*,

Defendants

OPINION

Plaintiff brings this action against defendants for injunctive relief and damages resulting from defendants' disclosure or use of trade secrets involving an iron removal process in violation of a written agreement entered into between the parties to hold the secret information of the process in confidence.

For the purposes of this opinion, plaintiffs will be hereinafter referred to collectively as Paterson, and the defendants, with the exception of Hillsdale Pump and Supply Company and Clymers Geothermal Heating and Cooling, for reasons hereinafter stated, shall be collectively referred to as Engineering.

The court for a period of six days heard twelve witnesses comprising nearly a thousand pages of testimony and received sixty-eight exhibits.

Summarizing the facts to a degree appropriate for rendering a decision herein, the court would find the following.

Since about 1977, Paterson had been engaged in experimenting with and developing a process for removing iron from water. In 1979 and '80, she had produced some test units, and through one Griewahn, a person who either worked for here or was an independent contractor engaged with her, installed several of the prototype units in the Adrian area. The persons in whose homes the units were installed were sworn to secrecy and were not to examine the units nor to have them repaired by anyone other than an authorized representative of Paterson. Efforts were made to disguise the content of the units.

In late winter or early spring of 1980, Paterson met for the first time the Defendant Robert Wolfong at a water treatment convention in Memphis, Tennessee, at which they discussed Paterson's water treatment unit. Wilfong had been engaged in the water treatment business for many years prior to this meeting.

On April 11, 1980, Engineering signed an agreement with Paterson agreeing to hold the confidential information concerning the iron removal system in confidence. Subsequently on December 10, 1980, both Robert Wilfong and Lawrence Gordon signed individual agreements with Paterson to keep confidential and not disclose or use any secret or confidential technology involved in the Paterson system.

Following the agreement of April 11, 1980, test units of the Paterson system were installed in several locations in and around Engineering's headquarters at Churubusco, Indiana.

On January 6, 1981, Paterson and Engineering entered into a consulting agreement under which Mr. Wilfong was to perform duties as would be assigned by Paterson. The

court would believe that it was contemplated by the parties that sometime in the future a relationship might be worked out whereby Engineering would become the manufacturer and distributor of Patersons' product.

On May 13, 1981, Engineering purchased from Paterson twenty-five of the Paterson units.

The court would believe that at sometime around this time Engineer became dissatisfied with the arrangements with Paterson believing that perhaps another competitor in the water treatment field was going to obtain the Paterson business. In any event, it was about this time, or shortly thereafter, that Engineering entered into an exclusive licensing agreement with one John McLean, who had a patent on a water treatment process issued by the United States Patent Office on March 14, 1972.

On August 6, 1981, Wilfong sent Paterson a letter terminating the consulting agreement and on August 13, 1981, again wrote a letter to Paterson indicating that Engineering was no longer interested in participating in negotiations for development or marketing of the process and that Engineering had become the exclusive licensee under the McLean patent.

In the meantime, in the summer of 1980 Griewahn, who was referred to earlier, severed all connections with Paterson and began manufacturing and selling the water system he had worked on with Paterson earlier. Paterson then started suit against Griewahn in this court asking that Griewahn be enjoined from manufacturing and distributing the product, basing her claim for injunctive relief on a violation of the confidential relationship in using the trade secret. The case was heard by this court February and March of 1981, and the relief prayed for by Paterson was granted. The court in its findings of March 30, 1981, found that the Paterson trade secret "is the novel combination of several features. . .".

At the trial in the Griewahn matter, many of the issues were raised which have again been raised in the instant case. The McLean patent was gone into, as was the use of the Dema Valve and the Filter-Ag. Defendant, Robert Wilfong, testified on behalf of Paterson at the Griewahn trial.

On December 15, 1980, Paterson filed an application for a European patent for her iron removal process, and in that application, it showed three prior United States patent applications, being December 14, 1979; May 2, 1980; and November 28, 1980. The European patent application was published on June 24, 1981. Engineering first became aware of the European patent in February or early March, 1983.

Two issues are raised in this matter: (1) did Paterson, at the time of the signing of the nondisclosure agreements, have a trade secret capable of being protected, and (2) if so, did Engineering violate those agreements.

In examining the first issue, let's look at Paterson's process itself. She testified she had been working on the iron removal process since 1977, and had incurred out of pocket expenses in its development of some $200,000.00. The process is new and novel in the water treatment industry. It involves the removal of minute particles of iron by the injection of air under high pressure into water forming a stable colloid which when coming in contact with a particular filter media causes an electrostatic reaction and attaches the iron particles to the filter media. Obviously, the discovery of the process requires more than considerable expertise. Considerable knowledge as to formation of colloids, their properties, the fact that they carry electrical charges and the result of such charges when in contact with other matter takes it from the realm of prior known filtering processes commonly used in the field.

The injection of air into water to assist in the removal of iron has been known and used for many, many years.

The purpose of the injection of air has in the past been to create an oxidation of the iron particles which then allows them to precipitate out of the water and are then collected in a filter media.

Various kinds and types of filter media have been used in the various iron removal processes previously marketed. Some of the filter media was used to collect the precipitated iron particiles [*sic*] while other types of filter media was used to change the pH in the water to create a more rapid oxidation and hence a greater iron removal. The testimony revealed that the colloidal iron particles are so small that they could not be filtered out by any known filter bed media by precipitation. There was no testimony offered which disputed Paterson's testimony that colloidal iron particles in the water were removed by electrostatic reaction.

Although this court is not bound by the findings of Judge Martin in the earlier case of the Laurene O. Paterson v Water Specialities, Inc., et al, 81-02-0181 CZ, the court has heard nothing in this trial that would warrant a change in Judge Martin's suppressed finding of June 9, 1981. The court would find therefore that Paterson's process is a valuable process which would give her a competitive advantage over those persons engaged in the field of iron removal. Further, that it is a new and novel process never before used in the water treatment field.

Was it a secret process capable of being protected, or was it a process either known in the field or readily available to persons in the water treatment field?

A number of these units were sold by Paterson as early as 1980, and it is disputed as to the extent of the secrecy attached to those sales. There was evidence that the sales required the purchaser to not repair the equipment but rather call an authorized representative to do the repairs and to not dismantle the equipment. There is other testimony to the contrry. In 1980, a former employee or

associate commence manufacturing the units based upon Paterson's process and immediately thereafter Paterson commenced her suit for injunctive relief against that person which is the Water Specialties case referred to above. There was testimony that by reverse engineering the Paterson unit could be duplicated without a great deal of effort. However, Mr. Wilfong in his testimony in the earlier case indicated that even if all the components were known and reconstituted into a new unit, it was doubtful to him if anyone in the water treatment field would understand how the process worked. Units sold in 1980 were sold locally; were not nationally advertised nor were they offered to others in the industry. The court cannot find that the earlier sales in 1980 in anyway jeopardized the secrecy of Paterson's process or exposed it to possible competitors or the general public so that it would be ascertainable without undue difficulty or hardship.

As between Paterson and Engineering, she used every available means to protect the trade secret by insisting upon nondisclosure and non-analysis agreements by Engineering and its individual officers. Engineering does not dispute the agreements or their purpose. It is Engineering's contention that they have neither appropriated nor disclosed Paterson's trade secrets. This brings us to the second issue.

Paterson's process incorporated two items common in the marketplace, but not previously used for the purposes required in her process. One of these items is a Dema valve. The valve is a form of aspirator which draws air into a part of it, and because of the size of the hole at its outlet causes the water when it's passed through it to be released under very high pressure, which mixes with the air as it's taken in through the aspirator. Any valve which would function in this fashion would be as satisfactory as the Dema valve. The other component of Paterson's process is a filter material known as Filter-Ag, a commercial product known in the trade for many, many

years, comprised mainly of volanic [*sic*] material. It is an inert material and for that reason has not been used in any great degree as a filter media for iron removal.

It is Engineering's claim that the units manufactured by them are not using Paterson's process but rather are manufactured and developed under the John McLean patent of which they are presently the exclusive licensee.

It then becomes necessary to determine whether Engineering's system is produced under the terms of the John McLean patent.

The primary functions of the McLean system are (1) removal of natural acidity, (2) simultaneous oxidization and removal of soluble iron, (3) removal of insoluble iron, silt and other particulate, and (4) removal of sulphur odors. It is necessary for the McLean system to function properly to inject air at some point in the process into the water and to have a particular type of filter bed or media. To insert the air in the water, the patent shows an air aspirator device. The description of the process says that the air aspirator is not absolutely necessary. Air can be introduced in the water by spraying water in the air filled portion of the tank above the mineral bed. The mineral bed should be a base of coarse gravel or some other inert material covered by dolomite or calcium carbonate.

The McLean system functions by mixing a substantial amount of air with the water, but not enough air to substantially precipitate iron, or to raise the pH of the water, until such time as the mixed air and water passes through the mineral bed comprised of a mineral capable of raising the pH to 7.0-7.5 to form particulate size iron hydroxide and then to mechanically trap the iron and other solid impurities by way of the filter and mineral bed.

What then are the differences between the Paterson system and Engineering's system?

Paterson's system is an electrostatic filtration process while the McLean system is an iron oxidation process. The most important and unique aspect of the Paterson process is the introduction of air into the water under high frictional energy in a sufficient quantity to form colloidally dispersed iron hydrates. McLean's system requires the introduction of air into the system to create a turbulence but at no particular rate and in no particular manner. Paterson's system requires a filter media of Filter-Ag or the equivalent. The McLean system requires a filter media comprised of a coarse gravel base or some other suitable inert material covered by dolomite or calcium carbonate to raise the pH in the water. Paterson's system does not rely upon raising the pH in the water whereas the McLean system regards that function of upmost importance. Although the outward appearance of the two systems may be nearly identical, the internal processes are entirely different.

The evidence disclosed that Engineering now uses in its product a Dema valve which is functionally identical to the one used by Paterson. Paterson first discovered the Dema valve. It had not, to Dema's knowledge, ever been used for the purpose Paterson intended. In discussing its use with Dema in the presence of Mr. Wilfong, non-disclosure secrecy agreements were also signed by the Dema officials. Subsequently, the valve was redesigned to disguise its appearance for secrecy reasons. This in spite of the fact that McLean patent neither suggests nor requires the induction of air into the system under high pressure. The evidence further disclosed that Engineering is now using Filter-Ag as a part of their filter media but not to the extent nor depth used by Paterson in her system. Filter-Ag is not a new product. It has been used by many companies to remove impurities from water. Judge Martin found in the earlier trial that the manufacturer of Filter-Ag does not list it as having iron removal properties. Further, Judge Martin found that Paterson was the first

to use Filter-Ag for iron removal. Mr. Wilfong testified the only reason Engineering was using Filter-Ag in their product was because it was lighter weight and has reduced shipping costs. Yet plaintiff's exhibits 23, 24, 25, and 26 would indicate that Filter-Ag is a very effective iron removal media. those exhibits further show that most of the iron removal in Engineering's filter media was removed by the Filter-Ag and not its other components. The court would have to believe that the reason its unit requires more frequent back washes, as disclosed by its advertising material, is because the amount of Filter-Ag used by Engineering is less than that used by Paterson.

The McLean system relies upon the raising of the pH in the water for the system to work effectively. The Paterson system does not. Mr. Wilfong in a letter to Paterson of August 3, 1980, says, "It is rather interesting that pH has little effect on removal capacity nor does the form of the iron seem to be of significant influence.". This letter was written following the several test installations made by Engineering in early 1980.

The court would find that the McLean patent neither incorporates nor contemplates the Paterson process. The court would further find that the Paterson process is new and novel and valuable, and that Paterson has used all reasonable means of maintaining its secret nature. The court would further find that Engineering has disclosed for its own use that secret process in violation of the nondisclosure agreements entered into by the parties.

TEMPORARY RESTRAINING ORDER—VIOLATION

On October 20, 1982, this court issued a temporary restraining order restraining and enjoining all defendants named herein from using or in any manner dealing with any process, apparatus, or system wherein the chemical nature or component parts of the system were based upon the confidential information and trade secrets imparted by

Paterson to Engineering. An order to show cause was issued to all defendants to appear in this court on March 10, 1983, to show cause why they should not be adjudged in contempt of court for violation of the temporary restraining order previously issued.

At a pretrial held on March 10, 1983, the court advised the parties that because the same issues were present in both the order to show cause as well as the case in chief, that it did not appear profitable for anybody to go through two hearings, and that the order to show cause should and would be decided at the same time as the case in chief. No objection was made to this procedure.

The evidence disclosed that Engineering had sold approximately 1700 units since October 20, 1982, which units the court has already found to be using Paterson's trade secrets, the use of which had been enjoined. The court would find, therefore, that Engineering has violated the temporary restraining order and that Engineering is in contempt of this court.

INJUNCTIVE RELIEF

Paterson prays for a permanent injunction restraining Engineering from using the Paterson process in the manufacture of their equipment.

Although there are cases which hold that persons who breach a confidential relationship should be permanently enjoined from the use of the secrets they have obtained, there are other cases which hold that permanent injunctive relief is inappropriate where the trade secret is available to the members of the public. As noted in *Kubik, Inc v Hull*, 56 Mich App 335 (1974) the Michigan rule appears to be that equitable relief should bear some reasonable relationship to the extent of the injuries suffered by the plaintiff.

Although Paterson's secret information was not readily available to the public at the time the nondisclosure agree-

ments were signed with Engineering, that secret information was available to the public after June 24, 1981, following publication of Paterson's European patent application. So far as the court is aware, no patent has been issued to Paterson for her process at this time. Therefore, it appears that the process would be available to anyone who had knowledge of it and wished to use it. It does not appear to the court that permanent injunctive relief is appropriate in this matter, particularly when it appears to the court that Paterson can be adequately compensated in monetary damages for misappropriation of her trade secrets. No permanent injunction will issue, and the temporary restraining order is dissolved.

DAMAGES

The purpose of assessing damages obviously is to reasonable [*sic*] compensate Paterson for the loss she has sustained as the result of Engineering's wrongful misappropriation of her trade secrets.

As noted before, Paterson spent some 4 1/2 years developing her process in which a number of air injectors and many types of filter media were tested and tried. Experimental units were developed, manufactured and tested. All reasonable efforts were used by Paterson to insure the secrecy of the process including the time and expense of the prior lawsuit to obtain injunctive relief. Paterson testified that she had spent some $200,000.00 in out-of-pocket expenses in the perfection of her process.

Soon after disclosure of trade secrets by Paterson to Engineering, Engineering commenced building their own units, and went into direct competition with Paterson for the sale of those units. The record discloses that prior to October 20, 1982, the date of the temporary restraining order, Engineering had sold approximately 2000 units. Further, that after the date of the restraining order Engineering had sold approximately 1700 units. Because the

temporary restraining order has been dissolved, Engineering can freely continue to directly compete with Paterson using the Paterson process. This, without Engineering having spent any time, effort, or money in development of the process.

The testimony further disclosed that Paterson was to receive from its exclusive licensee the sum of $18.00 per unit sold to the licensee for the period ending December 31, 1982, and $15.00 per unit thereafter. The testimony further disclosed that Engineering is paying to John McLean for their exclusive license under the patent 5% of the sales price of each unit sold by them. Their units sell for approximately $350.00 which would mean that the royalty payment would be $17.50 per unit. Testimony further disclosed that royalty payments are negotiated and depending upon the type of invention or modification of an existing invention, royalty payments varied from $2^1/_2$% to 5%. Some were even higher.

Although there are other iron removal systems sold, none are sold with this process nor are they as efficient as Paterson's process. It is impossible to determine and no evidence was introduced to indicate just what portion Engineering's sales may have been [*sic*] taken away the Paterson sales. However, there was testimony that they were in direct competition with each other.

This court is convinced that Engineering should not profit from the misappropriation of Paterson's trade secrets to Paterson's detriment.

It is proper in determining the amount of damages to take into account the amount of time, labor, and money expended by Paterson in designing, fabricating, and testing the product. It is also proper to take into consideration the profits lost by Paterson as the result of the misappropriation of the trade secrets. It is also proper to consider the existence or absence of competitors other than

the defendant that may be engaged in the sale of other iron removal equipment.

The court will assess damages in the amount of $100,000.00 to partially compensate Paterson for the time, effort, and expense she has gone to in perfecting her process. The court will assess damages in the amount of $64,750.00 for loss of royalty due Paterson upon the sale of the 3700 units sold by Engineering prior to and after the date of the preliminary injunctive order. The court will assess the sum of $60,000.00 as future damages by reason of the disillusion [*sic*] of the temporary restraining order. The dissolution of the temporary restraining order effectively leaves Engineering in a position to immediately compete with Paterson without the delays of research and development and the costs thereof and further causes Paterson to lose any competitive advantage she had because of her invention. The bad faith and misappropriation of the trade secrets should not permit Engineering to immediately profit therefrom.

The court will assess a fine against Engineering for the flagrant violation of this court's preliminary injunctive order in the amount of $250.00.

The court would find no cause for action against Hillsdale Pump and Supply Company and Clymer's Geothermal Heating and Cooling. The action is dismissed as to them.

The suppression order heretofore entered is dissolved, the court believing that it is no longer necessary to protect Paterson's trade secrets.

Paterson may have her taxed costs.

Dated: June 10, 1983

/s/John C. Timms
JOHN C. TIMMS, Circuit Judge

I want to thank counsel for their cooperation and assistance in conducting this trial and for the excellent briefs submitted.

APPENDIX F

STATE OF MICHIGAN
IN THE CIRCUIT COURT FOR THE COUNTY OF LENAWEE

File No. 82-10-1709

LAURENE O. PATERSON and MULTI-TEC INCORPORATED,
Plaintiffs

v.

CHEMICAL ENGINEERING CORP., *et al*,
Defendants

OPINION

This matter is again before the court on defendants' motion to reopen the trial before judgment for the purpose of allowing defendants to introduce further evidence.

Defendants rely basically upon GCR 527.1(6), newly discovered, material evidence, which could not with reasonable diligence have been discovered and produced at the trial. They also allege certain erroneous findings of fact. Although not set forth in defendants' motion, defendants in their argument in essence claim that plaintiff violated the court's discovery order by not furnishing to defendants certain reports, correspondence, and test results of the equipment in question.

Defendants first and last claims can be taken up together.

Some factual background may be appropriate in setting the posture of this case at this time.

Plaintiff commenced this action for misappropriation of trade secret in violation of trade secrets agreements on October 20, 1982. Defendants Chemical Engineering Corporation and John O. McLean commenced an action in U.S. District Court, northern district of Indiana, against Essef Industries, Inc., et al, on October 14, 1982, claiming Essef, plaintiff Paterson's exclusive licensee, was infringing upon the John O. McLean patent. The Federal Court matter is still pending. Considerable discovery has taken place, and apparently continues to take place, in the Federal Court matter most of which evidence, if not all, has been protected by an order of the Federal Court. Some of the protected evidence has been released and furnished to this court in support of defendants' motion herein. Many of the documents presented to this court are test results beginning in 1981 with the latest test results being dated June of 1983 and prepared by a group of geophyscists and chemical engineers at Case Western Reserve University. Chemical Engineering's motion for discovery of these documents was entered in Federal Court on November 14, 1982. Obviously, the latest report of June, 1983, was not available to defendants herein at the time this case was tried.

It must be remembered that Essef Industries, the entity for whom all the tests were performed and in whose possession all of the documentary evidence resided, is not a party to the action before this court. Although Essef is the exclusive licensee of plaintiff herein, there has been no showing that plaintiff herein had knowledge or possession of any of the test results. The mere fact that Essef was plaintiff's exclusive licensee would not in and of itself imput such knowledge to plaintiff herein. There might be some reason to believe that at least as to some of the reports, plaintiff would not have had knowledge of the test results since some of the information would appear to be adverse to her position with Essef. Without some showing of plaintiffs' knowledge of the existence of the

various reports and documents now handed to this court, the court cannot find that plaintiff violated any discovery orders issued by this court. Furthermore, with the exception of the June, 1983, report, most if not all of the documentary evidence was in the possession of Essef and available for discovery pursuant to the Federal Court's motion and order of November 14, 1982, long before the trial of this matter in this court. Even the report of June, 1983, is not conclusive of all of the issues raised in the trial in this court. It is subject to various interpretations and would be given such weight as the court might deem appropriate. And who is to say that even at this very moment there aren't further and additional tests being run by others the results of which might be considered as evidence 6 months, a year or even 2 years from now.

The court would believe and so finds that defendants herein had ample opportunity through one course or another to obtain the evidence necessary to prepare and defend this action. Defendant has cited in its motion pages from its trial record and from plaintiff's deposition in support of defendants' position that the evidence relied upon was not available to the defendant. The court has closely examined both citations, and finds they do not support defendants' position.

Defendants, in their motion at paragraph (2)(a)(b) and (c), claim the court erred in its factual findings. The court would believe that there was ample evidence to support the court's factual findings referred to in defendants' motion.

When defendants claim that "it can be now proven that the Paterson process and the process disclosed in the McLean patent. . .are the same", this court cannot agree.

Defendants must be relying upon the June, 1983, test results since those were the only results not known to defendants prior to trial; and as indicated earlier, this court does not believe those results to be conclusive and

the test report would be only additional evidence to be given such weight as the court might deem appropriate.

Defendants' claim in paragraph 3 of their motion that the court erred in finding that the water was released through the dema valve "under very high pressure". The court agrees. The word "pressure" should not have been used in the court's finding. Obviously, if the water entered the valve at 40 psi it could not have left the valve under any greater pressure. The court hesitates to use the word "velocity" since that too may have a technical meaning in physics unknown to this writer. What the court meant in its findings was that the water left the valve under much greater force or velocity than when it entered the valve.

Defendants' motion to reopen the proofs is denied.

The proposed judgment has been signed.

Dated: September 26, 1983 /s/John C. Timms
JOHN C. TIMMS, Circuit Judge

APPENDIX G

IN THE CIRCUIT COURT FOR THE COUNTY OF LENAWEE

File No. 82-10-1709

Honorable John C. Timms

LAURENE O. PATERSON and MULTI-TEC INCORPORATED, a Michigan Corporation, jointly and severally,

Plaintiffs,

vs.

CHEMICAL ENGINEERING CORP., an Indiana Corporation, ROBERT M. WILFONG, RUDY WILFONG, and LAWRENCE D. GORDON, HILLSDALE PUMP AND SUPPLY CO., a Michigan Corporation, and CLYMER'S GEOTHERMAL HEATING AND COOLING, a Michigan Corporation, jointly and severally,

Defendants.

DON K. HARNESS (P 14650)
RONALD L. HOFER (P 28272)
JEFFREY A. SADOWSKI (P 28163)
HARNESS, DICKEY & PIERCE

DEE EDWARDS (P 13106)
Attorneys for Plaintiffs

DAVID A. LUNDY, ESQ.
LUNDY & ASSOCIATES

CLYNE W. DURST, JR. (P 13045)
Attorneys for Defendants

ORDER OF JUDGMENT

At a session of said court held in the Lenawee County Judicial Building, in the City of Adrian, Michigan on June 10, 1983

PRESENT: HONORABLE JOHN C. TIMMS, Circuit Judge

The above-entitled action having been tried by the court without a jury, and the court having filed finding of fact and conclusions of law in an opinion dated June 10, 1983, and having concluded that judgment should be rendered for the Plaintiffs,

IT IS ORDERED AND ADJUDGED that the Plaintiffs recover of the Defendants, Chemical Engineering Corporation, an Indiana Corporation, Robert W. Wilfong, Rudy Wilfong and Lawrence D. Gordon, jointly and severally, $224,750.00 plus statutory interest from the filing the Complaint herein, together with their costs of $215.94.

IT IS FURTHER ORDERED AND ADJUDGED that Plaintiffs take nothing by their action against Defendants Hillsdale Pump and Supply Co. and Clymer's Geothermal Heating and Cooling, both Michigan corporations, but without costs, and the Complaint is hereby dismissed against them.

IT IS FURTHER ORDERED AND ADJUDGED that the temporary restraining order issued on October 20, 1982, is hereby dissolved.

IT IS FURTHER ORDERED AND ADJUDGED that the order suppressing the filed and records of the cause is hereby dissolved.

/s/John C. Timms
Honorable John C. Timms

APPENDIX H

STATE OF MICHIGAN
IN THE COURT OF APPEALS

Court of Appeals No. 75114

Lanawee Circuit Court
No. 82-10-1709

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED a Michigan Corporation
Plaintiffs and Appellees

v.

CHEMICAL ENGINEERING CORP. an Indiana Corporation, ROBERT M. WILFONG, RUDY WILFONG, and LAWRENCE D. GORDON
Defendants and Appellants

BRIEF OF APPELLANT

ORAL ARGUMENT REQUESTED

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ARGUMENT

I. A DEFENDANT CAN NOT BE HELD LIABLE FOR MISAPPROPRIATION OF A TRADE SECRET WHEN NO TRADE SECRET EXISTED AT THE TIME IT WAS ALLEGEDLY MISAPPROPRIATED

In a trade secret misappropriation case, the Plaintiff in order to be successful must prove (1) the existence of at least one trade secret at the time of misappropriation, (2) the disclosure of that secret to Defendant, and (3) the misappropriation of that secret by Defendant. *Insealator Inc. v. Wallace*, 357 Mich. 233, 98 N.W.2d 643, 652 (Mich. 1959).

In the instant action, the trial court held both that Multi-Tec had established trade secrets as of April 11, 1980, the date on which the relationship between Multi-Tec and Chemical Engineering was established by Chemical Engineering executing the Secrecy And Non-Analysis Agreement (PX 6), and that all of Multi-Tec's trade secrets ceased being secret on the publication of Paterson's European patent application (DX H) on June 24, 1981, almost two months before Chemical Engineering could have first misappropriated any trade secret of Multi-Tec as the relationship between Multi-Tec and Chemical Engineering did not terminate until August 14, 1981 (PX 17).

Furthermore, Chemical Engineering did not sell any MacClean iron removal devices, the only evidence of any alleged misappropriation of any of Multi-Tec's trade secrets by Chemical Engineering, until after August 14, 1981. (T.T. p. 66-67).

The Court held:

> "Although Paterson's secret information was not readily available to the public at the time the non-disclosure agreements were signed with engineering, that secret information was available to the public

> after June 24, 1981 following publication of Paterson's European Patent Application." (Opinion I, p. 9)

Michigan courts have long held that:

> "Before there can be the betrayal of anything in the nature of a trade secret by its misappropriation, there must *be* a secret."

Russell v. Wall Wire Products Co., 346 Mich. 581, 78 N.W.2d 149, 152 (Mich. 1956). See also *Insealator Inc. v. Wallace*, 357 Mich. 233, 98 N.W.2d 643, 653 (Mich. 1959), *Kubik, Inc. v. Hull*, 56 Mich. App. 335, 224 N.W.2d 80, 185 U.S.P.Q. 391, 399-400 (Mich. App. 1974), *Arco Industries Corp. v. Chemcast*, 623 F.2d 435, 443 (6th Cir. 1980) citing Mich. Law.

Information in the public domain is not trade secret and its use may not be restricted by the States because of the Federal patent laws:

> "[F]ederal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a patent."

Lear, Inc. v. Adkins, 395 U.S. 653, 668 (1969). See also *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974).

Information which is not secret is not protectable. *Allis-Chalmers Manufacturing Co. v. Continental Aviation Co.*, 255 F. Supp. 645, 653 (E.D. Mich 1966); *Hamilton Manufacturing Company v. Tubbs Manufacturing Company*, 216 F. 401, 407 (C.C.W.D. Mich. 1908) *Glucol Manufacturing Co. v. Schulist*, 239 Mich. 70, 214 N.W. 152, 153 (Mich. 1927); *Kubik Inc. v. Hull, supra* at 399-400.

Trade secret or "confidential information" must be secret to be protectable. *Hayes-Albion v. Kuberski*, 108 Mich. App. 642, 311 N.W.2d 122, 127 (Mich. App. 1981) (accord with *Kubik*), *Kearns v. Ford Motor Company*, 203 U.S.P.Q. 884, 888 (E.D. Mich. July 11, 1978), *Shatterproof Glass*

Corp. v. Guardian Glass Company, Inc., 322 F. Supp. 854, 863 (E.D. Mich. 1970), *McAlpine v. AAMCO Automatic Transmissions, Inc.*, 461 F. Supp. 1232, 1256 (E.D. Mich. 1978), *Crown Industries Inc. v. Kawneer Company, Inc.*, 335 F. Supp. 749, 761 (N.D. Ill. 1969), (applying Michigan Law) (1971), *Davis v. General Motors Corp.*, 196 U.S.P.Q. 218, 221 (N.D. Ill. June 27, 1977), (Mich. Law).

For this reason, general knowledge of the trade is in the public domain and not secret. *Allis-Chalmers, supra* at 653, *Manos v. Melton*, 358 Mich. 500, 100 N.W.2d 235, 238 (Mich. 1960), *Bickley v. Frutchey Bean Co.*, 173 F. Supp. 576, 122 U.S.P.Q. 448, 452 (E.D. Mich. 1959), *Arco, supra* at 441, *McAlpine, supra* at 1256, *Hayes-Albion, supra* at 126, *Hamilton, supra* at 407.

Information readily ascertainable by the trade or public is in the public domain and not secret. *Manos, supra*, at p. 238-239, *Crown Industries, supra* at 761, *Allis-Chalmers, supra* at 653, *Russell, supra* at 154, *Arco, supra* at 441, *Kubik, supra* at 396, *Insealator, supra* at 653, *Hayes-Albion, supra* at 126, *Dutch Cookies Machinery Co. v. Vande Vrede*, 289 Mich. 272, 286 N.W. 612, 614-615 (Mich. 1939).

Information in patents or other publications is not secret. *Dow Chemical Co. v. American Bromine Co.*, 210 Mich. 262, 177 N.W. 996, 1006-1007 (Mich. 1920), *Insealator, supra* at 761, *Arco, supra* at 442-443, *Crown Industries, supra* at 761, *Bickley, supra* at 451, *Davis, supra* at 221.

Information disclosed in a marketed product is in the public domain and not secret. *Allis-Chalmers, supra* at 653, *Crown Industries, supra*, at 761, *Kubik, supra* at 396.

In this action, the trial court held both that Multi-Tec's trade secrets became part of the public domain when Paterson's European patent application was published on June 24, 1981 (Opinion I, p. 9), and that Chemical Engineering

misappropriated Paterson's trade secrets by selling MACCLEAN iron removal devices beginning in August, 1981 (DX 41). These two holdings are mutually inconsistant under Michigan law.

The existence of the secret must be proven as of the date of its alleged misappropriation. As the Court in *Kubik*, 185 U.S.P.Q. at 395 stated:

> "The threshold question before us is whether the trial court properly determined that *the information allegedly conveyed by defendant* Hull *to defendant Phillips* constituted "trade secrets" of plaintiff... To be a trade secret, the information must, of necessity, be a secret."

In *Manos v. Melton*, 358 Mich. 500, 100 N.W.2d 235, 236 (1960) the court presented the same question:

> "Did plaintiff prove the existence of a secret process which belonged to plaintiff[s], and which defendant unlawfully disclosed?"

See also *Hayes-Albion, supra* at 126, *Insealator, supra* at 652. This question: *what secrets were existing when they were allegedly misappropriated?*, must be asked by the courts because the essential elements of a trade secret cause of action are the existence of the secret, and its unlawful misappropriation. *Russell, supra* at 151. *Davis, supra* at 221, *Crown Industries, supra* at 761.

Destruction of the lement of secrecy of the information destroys the trade secret. *Davis, supra* at 221-222, *Crown Industries, supra* at 761. See also *Bickley*, 122 U.S.P.Q. at 451, *Kubik, supra* 185 U.S.P.Q. at 401.

In proving secrecy, a plaintiff must prove that sufficient measures were taken to guard the secrecy of the information and preserve its confidentiality. *Kubik*, 185 U.S.P.Q. at 443, *Arco, supra* at 443, *Hayes-Albion, supra* at 126, *Manos, supra* at 239, *Kearns, supra* at 888-889. Here,

Multi-Tec's own successful efforts to publish the information at issue in a European patent application on June 24, 1981 negate any and all measures taken to maintain the secrecy of the information.

There being no trade secrets belonging to Multi-Tec at the time Chemical Engineering allegedly misappropriated them, the Court's decision must be reversed.

* * *

* * *

VIII. NO DAMAGES CAN BE AWARDED FOR MISAPPROPRIATION OF INFORMATION KNOWN TO THE PUBLIC PRIOR TO ALL PROVEN ACTS OF MISAPPROPRIATION

In the instant action, the trial court held both that Multi-Tec had trade secrets as of April 11, 1980 the date on which the relationship between Multi-Tec and Chemical Engineering began (PX 6), and that all of Multi-Tec's trade secrets ceased being secret upon the publication of Paterson's European patent application (DX H) on June 24, 1981, almost two months before Chemical Engineering first had an opportunity of misappropriating any trade secrets of Paterson. (PX 17; Opinion I, pp. 1-3). Therefore, any misappropriation of information originating with Multi-Tec by Chemical Engineering was a misappropriation of information known to the public.

Under Michigan law, before there can be misappropriation of any trade secret, there must be a secret. *Russel v. Wall Wire Products Co., supra, Kubik, Inc. v. Hull, supra.* Thus, all of the damages awarded by the trial court are totally inappropriate.

The trial court also stated:

> "The Court will asess the sum of sixty thousand dollars as future damages by reason of the disillusion

> (sic) of the temporary restraining order. The disillusion (sic) of the temporary restraining order effectively leaves Engineering in a position to immediately compete with Paterson without the delays of research and development and the cost thereof and further causes Paterson to lose any competitive advantage she had because of her invention. The bad faith and misappropriation of the trade secrets should not permit Engineering to immediately profit therefrom."

Under Michigan law, there can be no award of damages except in the event that a trade secret is proven to exist at the time of misappropriation. In the instant action, any misappropriation must have occurred after August 14, 1981, the date on which the relationship between Multi-Tec and Chemical Engineering was terminated. At that time, Multi-Tec had no trade secrets, as the trial court held that all of the trade secrets of Multi-Tec ceased being secret upon the publication of Paterson's European patent application on June 24, 1981. Therefore no damages can be assessed.

Lastly, any award of damages for the dissolution of the temporary restraining order in this litigation is improper. Under Michigan law, Chemical Engineering and all other members of the general public were permitted to appropriate to their own use all of Multi-Tec's secrets contained in Paterson's European patent application after publication. Thus Paterson suffered no damage when the trial court left Chemical Engineering in a position to immediately compete with Paterson without delay since Multi-Tec had already left the entire public and all its other competitors in the same position, absent any patent rights which will apply equally to Chemical Engineering and the general public.

For these reasons, the trial court's opinions and judgment must be reversed.

APPENDIX I

STATE OF MICHIGAN

IN THE COURT OF APPEALS

Court of Appeals No. 75114

Lenawee Circuit Court
No. 82-10-1709

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED a Michigan Corporation

Plaintiffs and Appellees

v.

CHEMICAL ENTINEERING CORP. an Indiana Corporation, ROBERT M. WILFONG, RUDY WILFONG, and LAWRENCE D. GORDON

Defendants and Appellants

REPLY BRIEF OF APPELLANT

ORAL ARGUMENT SCHEDULED

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I. A DEFENDANT CAN NOT BE HELD LIABLE FOR MISAPPROPRIATION OF A TRADE SECRET WHEN NO TRADE SECRET EXISTED AT THE TIME IT WAS ALLEGEDLY MISAPPROPRIATED

Plaintiffs-Appellees have rewritten this issue as:

> "A Defendant can be held liable for misappropriation of trade secret or confidential information *when the trade secrets existed at the time of disclosure* to Defendant although were later published in a foreign patent unknown to Defendants." (emphasis added) (Brief of Plaintiff-Appellee, p. 1)

This rewrite emphasizes the conflict between the Trial Court's and the Plaintiffs-Appellees' position *and* Michigan Law. Under Michigan law, a simultaneous *existence* and *misappropriation* of a trade secret must be proven. (*Insealator v. Wallace*, 357 Mich. 233, 98 N.W.2d 643, 652 (Mich. 1959), *Russell v. Wall Wire Products Co.*, 346 Mich. 581, 78 N.W.2d 149, 152 (Mich. 1956), *Kubik, Inc. v. Hull*, 56 Mich. App. 335, 224 N.W.2d 80, 185 U.S.P.Q. 391, 399-400 (Mich. App. 1974), *Arco Industries Corp. v. Chemcast*, 623 F.2d 435, 443 (6th Cir. 1980) (citing Mich. law). Michigan law does not grant a protected status to trade secrets that have become public and *no protection continues after the information becomes public. Davis v. General Motors Corp.*, 196 U.S.P.Q. 218, 221 (N.D. Ill. June 27, 1977), (Mich. law), *Crown Industries, Inc. v. Kawnneer Company, Inc.*, 335 F.Supp. 749, 761 (N.D. Ill. 1969), (applying Mich. law). *Kubik, supra* at 401, *Bickley v. Frutchey Bean Co.*, 173 F. Supp. 576, 122 U.S.P.Q. 448, 457 (E.D. Mich. 1959).

The Trial Court and Plaintiffs-Appellees position is that if information is trade secret *when disclosed*, then Defendants may not use it in the future, even though the information is no longer secret and the rest of the world is free to use the information. Michigan law and Plaintiffs-Appellees' position are opposites and can not be reconciled.

Plaintiffs-Appellees have alleged in their brief that the Trial Court made findings as to the existence of a trade secret, a disclosure in confidence and misappropriation of a trade secret and that this Court is bound by those findings unless the record reveals no substantial evidence to support those findings. (Brief of Plaintiff-Appellee, p. 11). Defendants-Appellants do not dispute the rule that a Plaintiff in a trade secret action must prove the existence of a trade secret, a confidential disclosure, and a misappropriation of a trade secret; however, Defendants-Appellants, do dispute the Trial Court's interpretation of that rule.

The Trial Court erroneously interpreted that rule as requiring proof that the information misappropriated *was* a trade secret *when disclosed*, in confidence. Michigan law actually requires proof that the information was a trade secret *when misappropriated* and that the information whether or not trade secret when disclosed had been disclosed in confidence.

Whether or not information was trade secret when confidentially disclosed is not relevant in a trade secret action under Michigan law. The rationale for this law is many fold, including the following: (1) trade secret information cannot be misappropriated after the information is no longer secret and becomes public knowledge; (2) proofs may not be possible to establish that the information was trade secret when it was disclosed, yet it may be clear that the information was trade secret when misappropriated; (3) public knowledge can not be protected except by patent *Lear v. Adkins*, 395 U.S. 653 (1969); and most importantly, (4) the trial court's approach would effectively, punish the use of public information, which may have been trade secret when disclosed, but later became public information, and deny protection to actual trade secrets at the time of misappropriation.

In the instant action there is no finding of the existence of trade secret information at the alleged time of misappropriation, in fact the trial court found the opposite, that the:

> "information was available to the public after June 24, 1981, following publication of Paterson's European patent application." (Opinion I, p. 9).

Much of the relationship between Plaintiffs and Defendants in this case on appeal occurred after Paterson took steps to have the information made public by filing her European patent application (see DXG; Brief of Appellant, p. ix-xi). Such efforts by Paterson to make the information public, eighteen months after the date of filing of the European patent application (DX G) under the regular European Patent Office practice, show that Plaintiffs-Appellees did not intend to keep the information secret beyond that time. Under Michigan law, information is secret only to the extent that those who possess it choose to keep it secret. *Kubik, Inc. v. Hull*, 56 Mich. App. 335, 224 N.W.2d 80, 185 U.S.P.Q. 391, 400 (Mich. App. 1974).

Plaintiffs-Appellees have, however, attempted to confuse matters by arguing that:

> "Defendants raise as a defense that they cannot be held liable for misappropriation of the trade secrets because the secrets were *later* disclosed in a published European patent application" (Brief of Plaintiffs-Appellees, p. 11)

when there is *no evidence* suggesting that Defendants-Appellees misappropriated anything *prior to* the publication of the European patent application. The alleged misappropriation here was use of information found in the European patent application, *after the publication of the European patent application*, and not before (see Brief of Appellant, p. viii-xi, and Brief of Plaintiff-Appellee, p. 9).

An additional distinction must be made in trade secret cases between misappropriations in obtaining the trade secret, for example the unauthorized taking of information by clandestine spying as in *Kubik v. Hull, supra* at 404 and misappropriations long after the trade secret was obtained, as in the instant case, in which there is no allegation that Defendants obtained the information improperly, but only that Defendants misused the information. Where the information is obtained improperly, a misappropriation occurs when the information *is obtained.* Where information is obtained *properly,* no misappropriation occurs at that time and a misappropriation can only relate to a later unauthorized use or disclosure of information as in this case on appeal.

• • •

Plaintiffs-Appellees also state that public information, information that has been published, remains trade secret until someone in the trade has knowledge of that information. They state:

> "The fact that a trade secret is available to one to find does not destroy its secrecy until it is actually found by someone." (Brief of Plaintiff-Appellee, p. 16).

Michigan law is opposite. Under Michigan law, publication destroys a trade secret. *Davis, supra* at 221, *Arco, supra,* at 442-443. *Kubik, supra* at 400 states this requirement as:

> "the degree to which the information has been placed in the public domain or rendered "readily ascertainable" by the third parties through patent applications or unrestricted product marketing."

The rationale for the rule that availability to the public destroys a trade secret under Michigan law is that it evidences the trade secret owner's intent. (See *Kubik, supra* at 400.) Another reason is that an inventor in obtaining

a patent under Federal law dedicates his invention to the public when publication occurs in exchange for rights under the patent laws, and thereafter trade secret law is preempted. See *Dow Chemical Company v. American Bromine Company*, 210 Mich. 262, 117 N.W. 996 (Mich. 1920); *Lear, supra.* Under the United States Patent Law, the dedication to the public by publication is made when the patent is granted. Under the European patent law, the dedication to the public by publication occurs as soon as possible after the lapse of a period of eighteen months from the effective date of filing. (Article 93, European Patent Convention) Under both systems, the dedication is irreversible. Once a patent is published, the information contained in that patent *cannot* be changed back into trade secrets even if the patent is later found invalid. *Scharmer v. Carrollton Manufacturing Co.*, 525 F.2d 95, 187 U.S.P.Q. 736 (6th Cir., 1975); *In re Monks*, 588 F.2d 308, 200 U.S. P.Q. 129 (CCPA, 1978).

APPENDIX J

STATE OF MICHIGAN
COURT OF APPEALS

Docket # 75114

March 8, 1985

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED, a Michigan corporation, jointly and severally,

Plaintiffs-Appellees,

v.

CHEMICAL ENGINEERING CORPORATION, an Indiana corporation, ROBERT M. WILFONG, RUDY WILFONG and LAWRENCE D. GORDON, jointly and severally,

Defendants-appellants.

Before: Allen, P.J., and J.H. Gillis and W.J. Giovan,* JJ.

PER CURIAM

Following a bench trial, defendants, Chemical Engineering, Robert Wilfong as president of Chemical Engineering, and Mr. Rudy Wilfong and Lawrence Gordon in their capacity as vice-presidents of Chemical Engineering, were found jointly and severally liable for $224,750 in damages for misapporpriation of trade secrets developed by plaintiffs, Laurene Paterson and Multi-Tec, Inc. Defendants appeal from the judgment as of right.

Laurene Paterson, an inventor previously involved in the development of pharmaceutical products, became involved in water treatment research in 1977. Research and de-

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* Circuit Judge, sitting on the Court of Appeals by assignment.

velopment were conducted through Multi-Tec, Inc., a personal corporation founded by Paterson. Hereinafter Paterson and Multi-Tec will be referred to collectively as "plaintiff".

In 1979-1980, plaintiff hired as an independent contractor or as an employee, Gerald Griewahn, to install test units of a device invented by plaintiff which purported to remove iron from water by electrostatic attraction. Griewahn was asked to keep the process a secret and was also told to instruct persons having access to the units not to investigate the machines or otherwise divulge their workings. Griewahn apparently did not abide by plaintiff's directions and his appropriation of information relating to the iron-removal device eventually became the subject of an action in Lenawee County Circuit Court.

Paterson met Robert Wilfong at a convention in Memphis, Tennessee in late winter or early spring of 1980, at which time Wilfong expressed an interest in obtaining additional information regarding plaintiff's iron-removal device. Prior to revealing any specific information, plaintiff required that Robert Wilfong and his son, Rudy Wilfong, sign an agreement on behalf of Chemical Engineering Corporation to hold information concerning the iron-removal system in confidence. The original agreement, signed April 11, 1980, specifically provided that:

> "CUSTOMER [Chemical Engineering Corporation] agrees to hold the Confidential Information in confidence and limit the number of persons acquiring such information to persons bound to the CUSTOMER by secrecy agreement. CUSTOMER shall not use such acquired information other than for the purpose of evaluating the IRS [iron-removal system], provided, however, that such obligation shall not apply to information which:
>
> "a. was demonstrably in CUSTOMER'S possession prior to disclosure thereof by or for Multi-Tec.

"b. is or becomes generally publicly available through no fault of CUSTOMER, its employees, or its agents.

"CUSTOMER agrees that it will not itself, or permit others, to analyze the IRS and that it will not itself, or permit others, during or after the term hereof, to investigate the structure or composition of the IRS."

In an additional agreement dated December 10, 1980, Robert Wilfong acknowledged that he had been given confidential information by plaintiff and that he had agreed to keep such information confidential. A secrecy agreement was also executed by sales vice president, Lawrence Gordon, on December 10, 1980.

After the signing of the April 11, 1980 agreement, defendants Chemical Engineering, Robert Wilfong, Rudy Wilfong and Lawrence Gordon ("defendants") installed approximately eight iron-removal test units. Defendants compiled data on the machines. A report to plaintiff dated August 3, 1980, indicated that defendants' tests revealed that the pH of the water being treated had little effect on the machine's iron-removing capabilities. The report further indicated that the test units were, in general, highly effective in the removal of iron.

On December 15, 1980, plaintiff filed an application for a European patent on the iron-removal system. The application, as required by law, disclosed all details of the process. The application was published in Europe on June 24, 1981. Defendants did not, however, become aware of the publication until February or March of 1983.

In late 1980 or early 1981, plaintiff determined that Robert Wilfong's services had become so valuable to plaintiff that Wilfong should be paid individually for his work. A formal agreement hiring Wilfong as a consultant to plaintiff was executed on January 6, 1981. The con-

sultation agreement incorporated by reference the prior secrecy agreements and provided that such agreements were in "no way waived by the terms of this Agreement".

At approximately the same time that Wilfong became a consultant to plaintiff, plaintiff became heavily involved in negotiations with Structural Fibers Corporation and Essef Industries, a division of Structural Fibers. Structural Fibers had been constructing the tanks used in plaintiff's test units. Initially, defendants were involved in negotiations with Structural Fibers. As time passed, however, defendants were no longer invited to participate in plaintiff's meetings with Structural Fibers.

In order to protect themselves from what defendants thought would be their total exclusion from the iron-removal device market, defendants began investigating the possibility of marketing other iron-removal units. In furtherance of this plan, Robert Wilfong traveled to the U.S. Patent Office in Washington, D.C. Wilfong obtained a copy of a patent issued to John McLean. Two or three weeks later, Wilfong met with McLean to discuss manufacturing and marketing McLean's iron-removal device. After several discussions, defendants signed an exclusive license agreement with McLean in July or August 1981.

On August 6, 1981, Wilfong sent a letter to plaintiff terminating his employment by plaintiff as a consultant. A second letter was sent to plaintiff on August 14, 1981 which indicated that defendants were no longer interested in developing and marketing plaintiff's machine. The letter further provided that defendants had become the exclusive licensee of a competing process under U.S. patent no. 3,649,532. Defendants, however, acknowledged that the confidentiality agreements with plaintiff would continue in full force and effect and would be honored by defendants in the future.

Following the termination of the marketing agreement with plaintiff, defendants began widespread marketing of

their iron-removal machine, which was marketed under the trade name "MacClean". Prior to October 1982, defendants sold 2,000 units of the MacClean device. Seventeen hundred machines were sold between October 20, 1982 and April 4, 1983. McLean received a royalty of approximately 1½% to 5% per machine.

Sometime during 1981, plaintiff entered into an exclusive licensing agreement with Essef Industries. Plaintiff was to be paid $18 per machine sold by Essef in 1982 and $15 per machine in 1983.

The present suit was instituted by plaintiff in October 1982. It was alleged that the MacClean iron-removal device included aspects of plaintiff's process which had not been independently learned from nor required for the manufacture of the iron-removal device described in the McLean patent.

At trial, plaintiff revealed that the Paterson iron-removal process operated on a theory of electrostatic attraction between negatively charged iron colloidal particles and positively charged pumice material (filter-Ag), which was contained in the device's filter. Water pumped into plaintiff's machine ran through an aspirator which plaintiff termed a "micronizer". The aspirator used by plaintiff was manufactured by the Dema Corporation. The Dema valve had not previously been used in a water treatment or iron-removal device. Rather, it was most commonly used to dispense soap in car washes or to apply liquid fertilizers. The Dema valve as used in plaintiff's machine mixed air with the untreated water. The water was sprayed through a nozzle located at the end of the aspirator. The speed of the water shooting from the nozzle drew in air through an opening in the machine. The amount of water going through the valve was regulated by a by-pass valve which could be opened or closed so as to decrease or increase the flow of water. High velocity through the nozzle had to be maintained in order to cause the creation of colloidal

particles. After the water was mixed with the air, the water passed through a tank containing filter-Ag (pumice). The positively charged colloidal particles were then attracted by the charge of the filter-Ag. Electrostatic attraction was necessary to remove the iron since the colloidal particles formed were too small to be filtered mechanically. Inside the filter-Ag, the charges were neutralized and the colloidal particles precipitated into the filter. The filter-Ag was then periodically backwashed to remove the iron deposits.

John McLean and Robert Wilfong testified as to the process used in the MacClean unit. The MacClean unit removed iron from water by oxidation and mechanical filtration. The McLean patent provided for introduction of air into the water by use of a mechanical aerator or by spraying water into the air-filled portion of the tank, or by any other "suitable means". Once air was introduced to the water, the water was passed through a filter containing dolomite and magnesium carbonate or calcium carbonate. It was important that oxidation not occur prior to the introduction of the air-water mixture into the filter. The filter increased the pH of the water. The higher the pH, the faster the formation of ferric hydroxide particles. Ideally, the pH of the water should be between 7.0 and 7.5. Interaction between the oxygen and iron caused the aggregation of iron particles. Eventually, the particles grew to a sufficient size to be mechanically filtered from the water. To filter the particles from the water, McLean suggested that the dolomite rest on a coarse gravel bed or any other suitable irregularly shaped material.

Although not specifically required or recommended in the McLean patent, the MacClean units manufactured by defendants used a Dema valve as a aerator and used filter-Ag as a filter material. Robert Wilfong explained that the Dema valve was a commonly available piece of equipment and fulfilled the function of an aerator in the MacClean unit. Wilfong further asserted that he used filter-Ag as a

filter material, not for its electrostatic properties, but because it was of lighter weight than filter-sand or gravel. Wilfong explained that by using filter-Ag instead of gravel he was able to reduce shipping costs.

The trial court's written opinion was issued on June 10, 1983. The trial court found that plaintiff used two items common in the marketplace but that these items were not previously used for the purposes to which they were put in the Paterson process. Specifically, the trial court mentioned plaintiff's unique use of the Dema valve which, because of its shape, caused water "to be released under very high pressure, which mixes with the air." The other unusual component of plaintiff's process was filter-Ag, a commercial product available in the trade for many years but because of its inert qualities had not previously been used as a filter medium for iron removal. The trial court also noted that as to defendants, plaintiff used every available means to protect the confidentiality of the use of the Dema valve and filter-Ag.

The trial court distinguished plaintiff's process from the McLean patented process by the fact that the Paterson process required the introduction of air into water under high frictional energy and of a sufficient quantity to form colloidally dispersed iron hydrates. McLean's system required the introduction of air into the system to create turbulence "but at no particular rate and in no particular manner". Further, the trial court pointed out that plaintiff's system required a filter medium of filter-Ag or the equivalent. The McLean system required a filter medium comprised of a coarse gravel base or some other suitable inert material covered by dolomite or calcium carbonate to raise the pH in the water. Plaintiff's system did not, however, rely on the raising of the pH in the water. Accordingly, the trial court concluded that McLean's patented process "neither encompasses nor contemplates the Paterson process" and the the Paterson process was "new, novel and valuable" and further, that plaintiff had used

all reasonable means of maintaining the secrecy of plaintiff's process.

Despite these findings, the trial court refused to permanently enjoin defendants from using the Dema valve and filter-Ag in the manufacture of their equipment. The trial court found such relief to be inappropriate since defendants' wide-spread sale of the MacClean device had already made plaintiff's trade secrets available to the public. Instead, the trial court found that plaintiff could be adequately compensated by monetary damages for defendants' breach of the confidentiality agreements and misappropriation of plaintiff's trade secrets.

The trial court granted plaintiff $100,000 as partial reimbursement of out-of-pocket expenses in the perfection of the Paterson process; $64,750 for loss of royalties on the 3,700 MacClean units sold by defendants; and, $60,000 as "future damages". An order providing that defendants were to pay $224,750 in damages "plus statutory interest from the date of filing the Complaint" entered on June 10, 1983.

After entry of the judgment, defendants made several motions to reopen the trial to take additional testimony. At a hearing held on August 18, 1983, defendants requested an accounting, claiming that an accounting would show that the trial court's award of damages for loss of profits and for development costs constituted a duplication of damages. The trial court rejected defendants' request, stating that the complaint gave defendants notice of the possibility that such an award would be made and that plaintiff was entitled to all damages suffered as a result of defendants' malfeasance, which included both the loss of profits and cost of development.

A second hearing was held on September 22, 1983. Defendants again requested that the trial be reopened pursuant to GCR 1963, 537.1(5), (6) and (7), for the purpose of taking evidence recently revealed at a related action in

federal district court, where defendants were suing Essef Industries for infringement of the McLean patent. According to defendants, Essef had produced test data documents relating to the Paterson device which conclusively established that the Paterson process was identical to the McLean process. The primary basis for defendants' assertion was a report by Dr. Matisoff, which allegedly established that plaintiff's machine did not work well where the pH level of the water was below 5.5. As an alternative reason for setting aside the June 10, 1983 judgment, defendants argued that one of the bases of the trial court's decision that the McLean process and plaintiff's process were dissimilar was that water came out of the Dema Valve at higher pressure. According to the defendants, this description of the flow of water out of the Dema valve was erroneous and contrary to the laws of physics.

Plaintiff argued that the importance of pH to plaintiff's machine had been overly emphasized by defendants and did not establish that plaintiff's process and the McLean process were identical. Plaintiff claimed that nothing in plaintiff's machine raised the pH in the water and that, in fact, pH decreased slightly. In addition, plaintiff noted that most natural waters fell in a pH range of 6 to 7, so that no change in pH was necessary to remove iron using plaintiff's process.

A written opinion on defendants' motion, issued September 26, 1983, provided that defendants had failed to produce any new evidence that was not available at the time of trial. The trial court did, however admit that use of the word "pressure" in the court's prior opinion may have been misleading. The trial court recognized that if water entered the Dema valve at 40 psi, it could not have left the valve under greater pressure. Fearing the possibility that some other scientific principle might be violated by using the term "velocity" to describe the channeling of water through the narrow opening of the Dema valve, the trial court hesitantly provided that what was meant

was that "the water left the valve under much greater force or velocity than when it entered the valve."

A third motion was filed to reopen the trial on the grounds of newly discovered evidence and test data stemming from the information contained in a report from Dr. Gerald Matisoff. The report was issued after the trial and was based upon tests conducted after trial. The motion was denied by the trial court.

As their first issue on appeal, defendants attack the trial court's finding that a trade secret in fact existed. Defendants base this attack on the contention that as of June 24, 1981, the date of publication of the European patent, the information contained therein was no longer "secret", and thus *per se* precluded the finding that defendants had misappropriated a trade secret.

As defined in *Kubic, Inc v. Hull*, 56 Mich App 335, 347; 224 NW2d 80 (1974), a trade secret is "any valuable formula, pattern, device, process or other information that is used in one's business and gives the possessor a competitive advantage over those who do not know or use the information." The *Kubic* Court also observed that to be a trade secret, the information in question must be "secret." To determine whether such is the case, the circumstances attending the possession and disclosure of the information must be closely examined since "[s]ecrecy is not, after all, an entity existing independent of the thoughts or acts of men; rather, information is 'secret' only to the extent that those who possess it choose to treat it so." *Kubic* at 356. The following factors relevant in determining whether the information was intended to be kept secret were identified in *Kubic*:

> "(1) the existence or absence of an express agreement restricting disclosure, (2) the nature and extent of security precautions taken by the possessor to prevent acquisition of the information by unauthorized third parties, (3) the circumstances under which the

> information was disclosed by the possessor to the employee to the extent that they give rise to a reasonable inference that further disclosure, without the consent of the possessor, is prohibited, and (4) the degree to which the information has been placed in the public domain or rendered 'readily ascertainable by the third parties through patent applications or unrestricted product marketing." *Kubic* at 356.

In the instant case, three express confidentiality contracts were entered into between the parties prior to any revelation of the details of plaintiffs' process to defendants. Plaintiff's distributor, Gerald Griewahn, who installed test units, was informed to instruct persons receiving the machines not to tamper with or investigate the machines. Identifying marks on the Dema valve were obliterated in order to conceal the identity of the valve supplier. A plastic plate was also installed over the machine's workings to conceal the process. In addition, the existence of a clear inference that defendants were not to reveal the details of plaintiff's process in the future was evident from Robert Wilfong's assurance that, even after the termination of defendants' relationship with plaintiff, the details of plaintiff's process would remain confidential. Consequently, there was a strong indication that plaintiff actively sought to keep the nature of the process a secret.

Furthermore, contrary to the contention of the defendants, the publication of plaintiff's European patent application does not, *per se*, preclude a finding that plaintiff's process remained a secret. Under the ruling in *Kubic, supra*, the publication of a patent application is only one of several factors to be considered in determining secrecy. The publication of the patent application in Europe is, in any event, of limited significance since defendants admitted that they did not learn of the publication until after the institution of the present lawsuit. Therefore, any information regarding the nature of

plaintiff's process must have come to defendants through their confidential relationship with plaintiff. Moreover, there was no evidence presented at trial which would indicate that any other person or entity involved in water treatment processes was aware of plaintiff's European patent application or the information contained therein. The trial court's finding that plaintiff's process constituted a trade secret was thus clearly supported by substantial evidence in the record, and we affirm that finding. *Hayes-Albion Corp v Kuberski*, ___ Mich ___; ___ NW2d ___ (1985)(Doc,et # 67897, rel'd 1-29-85), slip op at 10, 11.

Relying upon the above-stated conclusion, we briefly reject two related arguments advanced by defendants. First, defendants contend that the agreement which prohibited the use of confidential information regarding the iron-removal system was void since it constituted an unlawful contract not to compete. While it is true that MCL 445.761; MSA 28.61 declares illegal all contracts or agreements by which persons agree not to engage in any avocation, employment, pursuit, trade, profession, or business, it has long been recognized that this prohibition does not apply to contracts for the protection of trade secrets. *Thum & W Co v Tloczynski*, 114 Mich 149; 72 NW 140 (1897); *Dow Chemical Co v American Bromine Co*, 210 Mich 262; 177 NW 996 (1920); *Hayes-Albion Corp, supra*, slip op at 6. In fact, even in the absence of a nondisclosure contract, a person may be prohibited by common law from disclosing trade secrets. *Hayes-Albion, supra*, slip op at 7. Since we have already concluded that plaintiff's iron-removal process constituted a trade secret, defendants' attack on the validity of the nondisclosure agreement is clearly without merit.

Defendants also contend that the trial court erred in awarding damages for the misappropriation of a trade secret on the grounds that the publication of plaintiff's European patent application precluded the existence of a trade secret regarding the iron-removal system. As this argu-

ment has already been rejected in favor of the trial court's finding of a trade secret, it is clear that an award of damages for misappropriation of the trade secret was entirely justified.

Next, defendants attack the trial court's findings of fact as being contrary to the laws of physics. Specifically, defendants complain that the trial court misunderstood the nature and workings of the Dema valve, as evidenced by the use of the word "pressure" to refer to the way in which the water exited from the nozzle of the Dema valve. Defendants point out that the water does not leave the nozzle at a greater pressure, but rather at an increased velocity.

We believe that despite the improper term usage, the trial court adequately understood the scientific information provided by defendants on this issue. This fact is evidenced by the trial court's clarification of its opinion on September 26, 1983, where he agreed that the use of the word "pressure" was incorrect. Although the trial court equivocated between the use of the terms "velocity" and "force" for fear of running afoul of some other scientific principle, the opinion, when read in context, evidences a sufficient understanding of the Dema valve's scientific nature.

Furthermore, whether or not the trial court properly employed the use of the terms "velocity" or "force" does not affect the validity of its finding that defendants misappropriated plaintiff's trade secrets in manufacturing the MacClean units. The distinction made by the trial court between plaintiff's process and the McLean patented process was that the way in which the water came out of the aspirator in plaintiff's process had to be carefully regulated, while this factor was unimportant to the effectiveness of the mechanical filtration in the McLean process as long as air was mixed with the water. Such a distinction remains regardless of whether it is the "pressure", "force", or "velocity" of the water coming out of the Dema valve

nozzle that is being regulated. Consequently, the trial court's opinion contains no misapplication of scientific principles which would justify setting aside the judgment.

As their next attack on the trial court's findings, the defendants assert a violation of the rule that a mere theory may not be protected as a trade secret, but rather that a trade secret must be something of form and substance. See *Manos v Melton*, 358 Mich 500, 508; 100 NW2d 235 (1960). Defendants contend that the trial court focused on the method employed by the plaintiff's process rather than its form or substance, thereby finding the theory of the iron-removal system protectable as a trade secret.

We disagree. The trial court's opinion reveals that it found plaintiff's use of the Dema valve air injection system to create and hold a stable colloidal solution and the use of filter-Ag to remove the colloidals through neutralization of the colloidal particle's charge constituted protectable trade secrets. This was true even though the Dema valve and filter-Ag were commercially available to plaintiff's competitors since these materials had not previously been used for iron removal. While the use of these two products could be discovered through reverse engineering, the trial court noted that defendants did not discover the information in this manner nor through independent investigation. Instead, the information was obtained through defendants' confidential relationship with plaintiff.

It is clear, then, that the trial court did not rely on the theory of plaintiff's process in finding the existence of a trade secret. Rather, the use of the filter-Ag and careful regulation of water through the Dema valve, both constituting things of form and substance, were held to be protectable as trade secrets. Further, since the ability to duplicate through independent research or reverse engineering does not negate the secrecy of information as to persons who did not acquire the information by such means, but instead through taking unfair advantage of a confi-

dential relationship, the defendants' argument must be rejected. *Hayes-Albion Corp v Kuberski*, 108 Mich App 642, 651; 311 NW2d 122 (1981), *aff'd in part; rev in part on other grounds*, Mich ; NW2d (1985)(Docket # 67897, rel'd 1-29-85).

Defendants also assert a violation of their due process rights by contending that they were not aware until trial that plaintiff would be focusing on the use of filter-Ag as a filter material in their claim of misappropriation. We agree that the raising of an issue which has not been identified at the pretrial conference or through discovery can result in a violation of due process and fundamental fairness. *Berlin v Snyder*, 89 Mich App 38; 279 NW2d 322 (1979). However, defendants admitted in their brief that they had knowledge of plaintiff's specific claims through statements made by plaintiff in her pretrial deposition. One of the statements cited by defendants as delineating the nature of plaintiff's claims included the assertion that use of filter-Ag as a filter material constituted a trade secret and that "the use of some combination of magnesium oxide, sand, dolomite and Filter-Ag as a filter material" also constituted a trade secret. Consequently, defendants themselves negate any possible inference that they were not adequately notified prior to trial of plaintiff content to claim that the use of filter-Ag as a filter material was protectable as a trade secret.

Next, defendants claim that the trial court erred in awarding plaintiff damages for both lost profits and developmental costs. However, as stated in *Kubik, Inc v Hull*, *supra*, the trial court can properly consider the amount of time; labor and money expended in designing, fabricating, and testing the subject of the trade secret, in addition to the profits lost as a result of the misappropriation. *Kubic* at 364.

Further, in *Hayes-Albion*, *supra*, the Supreme Court specifically held that damages for both lost profits and for

unjust enrichment are available since they cover separate wrongs. *Hayes-Albion*, slip op at 10, 11. Here, the trial court refused to enjoin the defendants from further use of the secrets, but awarded plaintiff $100,000 for the time and effort expended by plaintiff in developing the process to offset the defendants' unfair competing advantage. This award thus constituted damages for the unjust enrichment defendants received by misappropriating the trade secret rather than developing the process through their own efforts. The additional award for lost profits, therefore, did not constitute a double recovery, and defendants' claim of an excessive award must be rejected.

Subsequent to the entry of the judgment in plaintiff's favor, defendants moved for a new trial on the grounds that newly discovered evidence in their possession clearly established that the plaintiff's process was not unique. Defendants argued that certain documents which had been withheld from discovery revealed that plaintiff's process did not work well where the pH of the water was below 5.5. This information, defendants allege, indicates that the plaintiff's process was identical to the McLean process. The trial court nonetheless denied the motion for new trial, and we must agree with that decision.

In order to establish an entitlement to a new trial on the ground of newly discovered evidence, the moving party must show:

> " '*First*, that the evidence, and not merely its materiality be newly discovered; *second*, that the evidence be not cumulative merely; *third*, that it be such as to render a different result probable on a retrial of the cause; *fourth*, that the party could not with reasonable diligence have discovered and produced it at the trial.' " *Hainault v Vincent*, 365 Mich 370, 317; 112 NW2d 569 (1961), quoting *Canfield v City of Jackson*. 112 Mich 120; 70 NW 444 (1897).

Defendants' request for a new trial was properly rejected for several reasons. First, defendants contend that the information in question was in the plaintiff's possession prior to trial, but that she improperly withheld the documents from discovery. However, the record contains no evidence which would support this conclusion. Defendants merely speculate that since this information was in the possession of Essef Industries, plaintiff must have been privy to it as a result of her employment by that company as an engineer and developer. However, an agreement entered into between plaintiff and Essef required only that the latter reveal all technical information relating to improvements made by Essef to plaintiff's device. Since the report which defendants now rely upon as constituting new evidence did not relate to any improvements or changes in the iron-removal system, there is no basis for concluding that the data was actually in plaintiff's possession.

More importantly, however, the information cited by defendants as "new evidence" would not have conclusively established that plaintiff's process was not unique and protectable as a trade secret. The report in question merely indicated that plaintiff's machine did not work well if the pH of the water was below 5.5. Similar evidence was produced at trial through the testimony of a witness for the defendants but was rejected by the trial court. Further, since there was evidence at trial that natural water generally has a pH of 6 to 7, information revealing a reduced efficiency of the device in water with less than 5.5 pH does little to negate the fact that a properly adjusted Dema valve and filter-Ag could be used to remove iron from most types of water by electrostatic attraction. Nor does it establish that plaintiff's filter material was in any way designed to affect the pH of the water, as was the filter material in the MacClean device. Consequently, the information relied upon by defendants as justifying their request for a new trial could not have rendered a different

result probable on retrial of the action. The motion was thus properly denied by the trial judge.

Next, defendants contend that the trial court's findings were against the great weight of the evidence. Our review of the record leads us to conclude that there was ample evidence presented at trial to support the lower court's finding that plaintiff's process for removing iron from water was not identical to the McLean process so that the use of aspects of plaintiff's method by defendants constituted misappropriation of plaintiff's trade secrets. Plaintiff's evidence established that the use of an aerator in the McLean process was not essential to the operation of the MacClean device. Accordingly, the aerator used in the MacClean device did not need to be adjusted so as to be of sufficient velocity to create colloids. In addition, there was nothing in the McLean patent which indicated that filter-Ag was to be used as a filter for the mechanical removal of iron particles from water. Robert Wilfong admitted that the use of a carefully adjusted aerator, such as the Dema valve, and use of filter-Ag as a primary filter material rather than as an underbedding was unknown in the industry prior to plaintiff's use of this medium in her machine. While defendants claim that they used the filter-Ag instead of sand or gravel simply because of its weight, the use of this material in conjunction with the aerator indicates that defendants were, in fact, using the material to bolster the effectiveness of the McLean process. In effect, the unit manufactured by defendants was capable of removing iron particles both by mechanical filtration and electrostatic attraction. Although defendants claim that they did not use enough filter-Ag to effectively remove iron particles by electrostatic attraction, an analysis conducted by plaintiff indicates that in at least some of the machines defendants were using amounts of filter-Ag which approximated those used by plaintiff's machine. Since there was no evidence to indicate that other manufacturers of iron-removal devices were utilizing filter-Ag and aerators

(or aspirators) in the manner present in plaintiff's machines, the trial court's determination that these aspects of plaintiff's machine constituted trade secrets which had been misappropriated by defendants was sufficiently supported by the evidence.

Finally, defendants argue that the trial court failed to reduce the award of future damages to present value prior to computing interest, as required under Michigan law. *Harper v National Shores, Inc*, 98 Mich App 353; 291 NW2d 1 (1979). However, we find nothing in the language of either the trial court's opinion or the final order which would support the conclusion that the trial court failed to reduce the future damages to their present value. We believe the award of $60,000 was in fact the present value of the future damages as found by the trial court. We therefore find no merit to defendants' complaint with the award, and as with all other aspects of the judgment, we affirm.

Affirmed.

/s/GLENN S. ALLEN, JR.
Glenn S. Allen, Jr.
/s/JOHN H. GILLIS
John H. Gillis
/s/WILLIAM J. GIOVAN
William J. Giovan

APPENDIX K

STATE OF MICHIGAN

IN THE SUPREME COURT

APPEAL FROM THE MICHIGAN COURT OF APPEALS
PER CURIAM BEFORE: P.J. ALLEN, J.H. GILLIS AND W.J. GIOVAN

SUPREME COURT No.

COURT OF APPEALS No. 75114

LENAWEE CIRCUIT CT. No. 82-10-1709

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED, a Michigan corporation, jointly and severally,
Plaintiffs-Appellees,

v.

CHEMICAL ENGINEERING CORPORATION an Indiana corporation, ROBERT M. WILFONG, RUDY WILFONG and LAWRENCE D. GORDON, jointly and severally,
Defendants-Appellants.

BRIEF SUPPORTING APPLICATION FOR LEAVE TO APPEAL

ORAL ARGUMENT REQUESTED

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* * *

The holding that Defendants misappropriated trade secrets, in in conflict with Michigan law.

Under Michigan law once trade secret information becomes public, everyone is entitled to use the information. *HayesAlbion v. Kuberski*, ___Mich. ___, ___N.W.2d ___ (1985) (Docket # 67897, rel'd 1/29/85), slip. op. at 13 footnote 10, citing *Winston Research Corp. v. Minnesota Mining and Manufacturing Co.*, 350 F.2d 134 (CA 9, 1965) *Crown Industries, Inc. v. Kawneer Co., Inc.*, 335 F. Supp. 749, 761 (N.D. Ill. 1969), applying Mich. law), *Davis v. General Motors Corp.*, 196 U.S.P.Q. 218, 221 (N.D. Ill. June 27, 1977) (applying Michigan law), *Kubik, Inc. v. Hull*, 56 Mich. App., 335, 224 N.W.2d 80, 185 U.S.P.Q. 401 (Mich. App. 1974), *Bickley v. Frutchey Bean Co.*, 173 F. Supp. 576, 122 U.S.P.Q. 448, 457 (E.D. Mich. 1959).

Information which is not secret is not protectable by the courts. *Allis-Chalmers Manufacturing Co. v. Continental Aviation Co.*, 255 F. Supp. 645, 635 (E.D. Mich 1966); *Hamilton Manufacturing Company v. Tubbs Manufacturing Company*, 216 F. 201, 407 (C.C.W.D. Mich. 1908) *Glucol Manufacturing Co. V. Schulist*, 239 Mich. 70, 214 N.W. 152, 153 (Mich. 1927); *Kubik Inc. v. Hull, supra* at 399-400, *Kearns v. Ford Motor Company*, 203 U.S.P.Q. 884, 888 (E.D. Mich. July 11, 1978), *Shatterproof Glass Corp. v. Guardian Glass Company, Inc.*, 322 F. Supp. 854, 863 (E.D. Mich. 1970), *McAlpine v. AAMCO Automatic Transmissions, Inc.*, 461 F. Supp. 1232, 1256 (E.D. Mich. 1978), *Crown Industries Inc. v. Kawneer Company, Inc.*, 335 F.

Supp. 749, 761 (N.D. Ill. 1969), (applying Mich. Law) (1971), *Davis v. General Motors Corp.*, 196 U.S.P.Q. 218, 221 (N.D. Ill. June 27, 1977), (Mich. Law).

Michigan courts have also long held that:

> "Before there can be the betrayal of anything in the nature of a trade secret by its misappropriation, there must *be* a secret."

Russel v. Wall Wire Products Co., 346 Mich. 581, 78 N.W.2d 149, 152 (Mich. 1956). See also *Insealator Inc. v. Wallace*, 357 Mich. 233, 98 N.W.2d 643, 653 (Mich. 1959), *Kubik, Inc. v. Hull*, 56 Mich. App. 335, 224 N.W.2d 80, 185 U.S.P.Q. 391, 399-400 (Mich. App. 1974), *Arco Industries Corp. v. Chemcast*, 623 F.2d 435, 443 (6th Cir. 1980) citing Mich Law.

Information which is readily ascertainable or generally know to the trade or public is not secret. *Allis-Chalmers, supra* at 653, *Manos v. Melton*, 358 Mich. 500, 100 N.W.2d 235, 238-239 (Mich. 1960), *Bickley v. Frutchey Bean Co.*, 173 F. Supp. 576, 122 U.S.P.Q. 448, 452 (E.D. Mich. 1959), *Arco, supra* at 441, *McAlpine, supra* at 1256, *Hamilton, supra* at 407, *Crown Industries, supra* at 761, *Allis-Chalmers, supra* at 653, *Russell, supra* at 154, *Arco, supra* at 441, *Kubik, supra* at 396, *Insealator, supra* at 653, *Dutch Cookies Machinery Co. v. Vande Vrede*, 289 Mich. 272, 286 N.W. 612, 614-615 (Mich. 1939). Thus information disclosed in a publication or patent or marketed product is not secret. *Dow Chemical Co. v. American Bromine Co.*, 210 Mich. 262, 177 N.W. 996, 1006-1007 (Mich. 1920), *Insealator, supra* at 761, *Arco, supra* at 442-443, *Crown Industries, supra* at 761, *Bickley, supra* at 451, *Davis, supra* at 221, *Allis-Chalmers, supra* at 653, *Crown Industries, supra*, at 761, *Kubik, supra* at 396.

A patent publication necessarily makes public information needed to practice the best mode of the invention

known to the inventor at the time of application. *Dow Chemical, supra* at 1006-1007.

Information cannot be available to the public and secret at the same time. *Manos, supra* at 238-239, *Hayes-Albion, supra* at 7, footnote 4, *Insealator, supra* at 653, *Dutch Cookie Machinery Co. v. Vande Vrede,* 289 Mich. 272, 286 N.W. 612, 614-615 (Mich. 1939), *Crown Industries, supra* at 761, *Allis-Chalmers, supra* at 653.

* * *

As the court noted in *Kubik, supra* at 86-86:

> "To be a trade secret, the information must, of necessity, be a secret: specifically there must be evidence presented that sufficient measures have been taken to guard the secrecy of the information and preserve its confidentiality." (Also quoted in *Arco Industries, Corp, supra* at 443.)

The Michigan Supreme Court stated this another way in *Manos, supra* at 238-239:

> "Ellis on Trade secrets, § 239, pp. 324-325, recognizes 7 factors for consideration as to the existence of a legally protectable trade secret: * * *(7) Plaintiff must prove that secrecy has been maintained either by nondisclosure or disclosure in confidence' ".

The court in *Bickley, supra* at 451 stated this still another way:

> "* * * if there has been a *voluntary disclosure by plaintiff, or* if the *facts* pertaining to the matter are a subject of *general knowledge in the trade, then any property right has evaporated.*" (emphasis supplied by court, citing National Starch Products v. Polymer Industries, 273 App. Div. 732, 77 U.S.P.Q. 644, 645).

This same general principle as applied to a publication was stated by the *Davis* court as:

> "Publication of allegedly secret technical information destroys any cause of action based on use of the information, Insealator, Inc. v. Wallace, 357 Mich. 233, 98 N.W.2d 643, 653 (1959); Crown Industries, Inc. v. Kawneer Co., 355 F. Supp. 745, 761, 171 U.S.P.Q. 401, 410 (N.D. Ill, 1969) (applying Michigan law); Manos v. Melton, 358 Mich. 500, 100 N.W. 2d 235, 124 U.S.P.Q. 144 (1960); Russell v. Wall Wire Prod. Co., 346 (Mich. 581, 78 N.W.2d 149, 111 U.S.P.Q. 51 (1956); Dow Chemical Co. v. Amer. Bronime Co., 210 Mich. 262, 177 N.W. 996 (1920); Wesley-Jessen, Inc. v. Reynolds, 182 U.S.P.Q. 135, 145 (N.D. Ill, 1974); Motorola, Inc. v. Fairchild Camera & Instruments Corp., 336 F.Supp. 1173, 1186, 177 U.S.P.Q. 614, 622 (D. Ariz. 1973). See also Bimba Mfg. Co. v. Starx Cylinder Co., 164 U.S.P.Q. 304, 308 (Ill. App. 1st Dist., 1969); Northrup v. Reish, 200 F.2d 924, 929, 96 U.S.P.Q. 78 (7th Cir. 1953); 4 Restatement of Torts § 757 Comment b, at 5-6 (1939)." *Davis, supra* at 221.

In the instant action, Paterson voluntarily disclosed her information to the public by voluntarily filing an application for a European patent. Previous measures taken by her to protect the secrecy of the information can not be sufficiently to guard the confidentiality of that information once she had it disclosed. Patersons' actions, as a whole, demonstrate an intent to make the information public, not to keep it a secret.

The Court of Appeals stated that:

> "The publication of the patent application in Europe is, in any event, of limited significance since defendants admitted that they did not learn of the publication until after the institution of the present lawsuit. Therefore, any information regarding the nature of plaintiff's process must have come to defendants through their confidential relationship with plaintiff. The trial court's finding that plaintiff's proc-

> ess constituted a trade secret was thus clearly supported by substantial evidence in the record, and we affirm that finding. *Hayes-Albion Corp v. Kuberski*, Mich. ; N.W.2d (1985), (Docket #67897, rel'd 1-29-85), slip op at 10, 11." (*Paterson*, p. 11 Ct. App.)

In the above statement, the Court of Appeals apparently created a legal fiction that information can be both readily ascertainable by the public and secret as to an individual. That position conflicts with both the ordinary definition of "secret" and Michigan law that information readily ascertainable by the public is not secret. *Manos, supra* at 238-239, *Hayes-Albion, supra* at 7 footnote 4, *Insealator, supra* at 653, *Dutch Cookie Machinery Co. v. Vande Vrede*, 289 Mich. 272, 286 N.W. 612, 614-615 (Mich. 1939) *Crown Industries, supra* at 761. The Court of Appeals apparently held that a "confidential relationship" created by contract could continue to bind Defendants as to a trade secret otherwise destroyed by publication. The Michigan Court of Appeals in *Kubik, supra* disagreed:

> "To adequately and fairly protect the rights of both employer and employee, information which is truly 'secret' in nature must be distinguished from that which is readily available to the public. That distinction cannot be based on simply the relationship existing between the parties at the time the employee acquired the information."

Federal Patent Law does not allow a Defendant to be held liable under State Law for misappropriation of information fully contained in a patent publication.

Federal patent law (35 U.S.C.) is enacted under Article I, Sec. 8, Clause 8 of the United States Constitution to promote scientific and technological progress by encouraging the disclosure of patentable inventions. The patent law grants to the patent owner an exclusive right to use the invention for seventeen (17) years in return for a full

disclosure. Inherent in the operation of the patent system is the free use of all information disclosed in patent publications. *Dow Chemical, supra* at 1007. As stated by the United States Supreme Court in *Lear, Inc. v. Adkins*, 395 U.S. 653, 668 (1969):

> "[F]ederal law requires that all ideas in general circulated be dedicated to the common good unless they are protected by a patent."

The Trial Court's holding and Court of Appeals affirmation that trade secrets existed after publication of the European patent application is in contravention of this policy and is thus preempted by Federal law. Defendants-Appellants executed agreements to maintain the trade secrets confidential on April 10, 1981. Plaintiff-Appellee's trade secrets were published in Paterson's European patent application on June 24, 1981. The first acts of alleged misappropriation occurred subsequent to August 14, 1981. The trial court held that Defendants-Appellants misappropriated the trade secrets of Plaintiffs-Appellees subsequent to August, 1981 and awarded damages against the strong admonition of Federal patent law that all information in Paterson's European patent publication be dedicated to the common good for all to use, presumably upon the grounds that Defendants-Appellants did not know then that Paterson's patent was published. Defendants-Appellants instead acted upon their belief that they had not misappropriated any trade secrets of Plaintiffs, but instead, were practicing the invention disclosed in U.S. Patent No. 3,649,532 issued to John O. McLean on March 14, 1972.

The facts in this litigation support the issue of Federal preemption more compellingly than do the prior major cases in this area since the information at issue here was both published and patentable.

The United States Government, in its Amicus Curiae brief, in *Kewanee Oil Company v. Bicron, supra*, stated a

standard for Federal preemption of state trade secret law as to all patentable information.

> "The view within the government that federal law preempts some aspects of state trade secret law is based on the contention that some applications of trade secret law interfere with the policy of the patent system to promote scientific and technological progress by encouraging disclosure of patentable inventions, and that certain other applications of trade secret law interfere with the national policy in favor of free competition. Interference with the policy of the patent system, occurs, in this view, because reliance on trade secret law causes patentable inventions to be diverted from the patent system. Such diversion, it is contended, should be tolerated only if it resulted from a reasonable, good faith belief that the protected secret was unpatentable
>
> • • •
>
> There is no preemption, under this view, of trade secret protection of novel advances and technology that are below the inventive level under the patent code, so long as state protection, in this or any other application of trade secret laws is limited duration so as not to exceed either the time to rediscover the secret independently ("headstart") or the time during which the secret does not actually become known."

This standard, if limited to published information, is consistent with the *Kewanee* decision and other United States Supreme Court cases and should be followed in this case. Here, Plaintiff-Appellee chose to file applications for Letters Patents in Europe, Canada and the United States. The European patent application was published on June 24, 1981, eighteen months after the date of filing of the U.S. patent application, the date elected by Paterson as here European priority date. The Canadian Patent was

published on October 14, 1983 and the United States Patent was published on February 7, 1984.

Thus the holding of the trial court and Court of Appeals is fully encompassed by the United States Government's position in *Kewanee, supra* as the subject matter of Plaintiff's trade secrets was determined to be patentable by the United States and Canadian Patent Office (and thus is above the inventive level required by the Federal patent law). In addition the trial and appellate court's holding extends protection to information in a patent publication beyond the 17 year period of the patent laws which also conflicts with the patent laws.

Decisions of the United States Supreme Court dealing with preemption of state law in the area of patents and copyrights are consistent with the standard Defendants-Appellants herein advance. The decisions are *Sears, Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225; *Lear, Inc. v. Adkins*, 395 U.S. 653; and *Goldstein v. California*, 412 U.S. 546.

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, was an action by an owner of a design patent on a marketed pole lamp both for patent infringement and unfair competition relating to sales by defendant of a similar lamp. The Seventh Circuit held that although the design patent on the pole lamp was invalid for want of the required inventiveness, the plaintiff was entitled to an injunction under the Illinois law of unfair competition. The United States Supreme Court reversed, holding that state law which precluded the copying of an uncopyrighted and unpatented work which had, in the copyright sense, been published was contrary to the Federal patent and copyright statutes. The state law of unfair competition would, in effect, have provided the full equivalent of patent protection indefinitely for a design which Federal law held not to be patentable.

Lear, Inc. v. Adkins, 395 U.S. 653, was an action by a patent licensor for royalties. The California state courts had held that under California law the licensee was not entitled to defend the action on the ground that the patent was invalid. The United States Supreme court reversed holding that the Federal law overrode the state law of contracts and that "all ideas in *general circulation* [were] dedicated to the common good unless they are protected by a valid patent" (395 U.S. at 668, emphasis supplied). The Court emphasized the Federal interest in freeing commerce from the clog of claimed federal monopolies by giving patent licensees, who "may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery" (*Id.* at 670, the right to challenge the validity of the licensed patents. Adkins had argued, however, that even if licensee estoppel was generally unavailable, the defendant licensee should not be allowed to challenge the validity of his patent because the license had not only conferred the right to the patent, but also had given advance access to the information contained in the patent application. It was in connection with this argument that the Court observed that "[a]t the core of this case, then is the difficult question whether federal patent policy bars a State from enforcing a contract regulating access to an unpatented secret idea" (395 U.S. at 672). The Court resolved this issue by holding that the plaintiff was not entitled to recover any royalties after the date the patent issued, and specifically refusing to rule on the claim for contractual royalties accruing before the patent issued 395 U.S. at 674-675.

The only other decision of the United States Supreme Court involving preemption in the copyright and patent area is *Goldstein v. California*, 412 U.S. 546. That case is important because it made clear that the preemption doctrine as to copyrights is statutory, not a constitutional doctrine. In deciding whether or not state law relief for the piracy of sound recordings was barred from federal

law, the Court looked to the purposes and effects of the copyright statute to determine whether or not Congress in denying copyright protection to sound recordings, had also barred state protection. The Court held that uniformity was not required in the regulation of copyright, with respect to subject matter which Congress had left outside the Federal copyright statute, for it involved only matters "of purely local importance and not worthy of national attention or protection". (*id.* at 558) The Court carefully confined its ruling to the copyright laws, and appears to have been unanimous in the view that different principles apply in the case of patent law.

Congress, in providing for patent protection, has limited state trade secret relief since in this case the industrial technology and the industries using it are of more than merely local importance and are within the core area of Federal patent regulation (statutory subject matter within 35 U.S.C. 101). In the case of patentable inventions, Federal law has occupied the field. *Kewanee, Oil Co., supra.*

There is no express intent of Congress to reserve powers in the States with respect to patents and trade secrets as there was with copyrights. See 17 U.S.C. 2. Defendants-Appellants believe that the arguments in favor of Supremacy Clause preemption are compelling here.

The United States Supreme Court in *Goldstein, supra,* found clear Congressional intent *not* to include mechanical recordings within the scope of the copyright statutes and consistent rulings of the Registrar of Copyrights that mechanical recordings were not entitled to protection under the copyright statutes. In the case at bar, there is clear Congressional intent to include the subject matter of Plaintiff-Appellee's alleged trade secrets within the scope of the patent statutes.

The first significant distinction between this case and *Goldstein,* therefore is that in the *Goldstein* situation Congress had stayed its hand entirely and had indicated that

mechanical reproductions were outside of the scope of the Copyright Statutes so California was at liberty to act, whereas in this case, Congress has included the trade secret subject matter in issue within the scope of the patent statutes.

The second significant distinction between this case and *Goldstein* is the respective natures of patents and copyrights. The differences between patents and copyrights are set out in *Baker v. Seldon*, 101 U.S. 99, 102-103 (1880); *Mazor v. Stein*, 347 U.S. 201, 217-218 (1954) and *Alfred Bell & Co. v. Catalda Fine arts*, 191 F.2d 99, 100-104 (2d Cir. 1951).

Copyrights protect specific writings, need not be original, are obtained by registration without examination, and have a term of more than 50 years, 17 U.S.C. 302. Unlike copyrights, patents protect embodiments of ideas and concepts, must be original and beyond the skill in the art, must be a full disclosure of the idea sought to be protected, (35 U.S.C. 112), are obtained from the Patent Office only after examination, and have a term of seventeen years, (35 U.S.C. 152), after which they are dedicated to the public. *Scott Paper Co. v. Marcalus Manufacturing Co., Inc.*, 326 U.S. 247, 255 (1945) (Pet. App. 16 & 17). A copyright gives protection only to the expression of the idea not the idea itself. *Mazor v. Stein*, 347 U.S. at 217.

Unlike the situation in *Goldstein*, the holding of the trial court here places direct restraints on the use of ideas and concepts available to the public.

Trade secret laws divert a significant number of inventions away from the patent system, and thus interfere with its objectives. Trade secret protection is an alternative to patent protection for patentable discoveries and therefore, the two systems compete. If an inventor elects trade secret protection of a patentable invention, the public loses the various benefits of the disclosure of his innovation, which the patent laws require as the price of a 17-year monopoly.

Disclosure permits exploitation of the invention for non-commercial scientific purposes (which does not constitute infringement), provides a stimulus to others to develop improvements or to "invent around" the patent, and enables the public, upon expiration of the patent term, to make free use and secure full commercial exploitation of the patented invention. Because "[t]he free flow of both basic and applied scientific knowledge is absolutely essential to the most rapid rate of progress and maximum utilization of our scientific resources," the *raison d'etre* of the patent system is to foster such disclosure—"to bring forth the new knowledge" (*Graham v. Deere Co.*, 383 U.S. 1,9).

Federal policy does not merely offer the patent as an option, but favors recourse by an inventor to that system. In establishing the patent system, Congress, presumably, at least hoped that inventors would utilize the system and thus disclose their inventions to the public. Moreover, the statutory (35 U.S.C. 102(b), 102(c), 102(g) and judicial (*e.g. Kendall v. Winsor*, 21 How. 322, 328-329; *Pennock v. Dialogue*, 2 Pet.1) disfavor of inventors who practice their invention in secret and then apply for a patent indicates a desire, to encourage recourse to the patent law.

Preemption is also supported, although less urgently, by the need for uniformity in the regulation of the subject. Since the time of Madison (The Federalist, No. 43 (Cooke ed., 1961)), it has been recognized that the separate states cannot effectively provide for the protection and promotion of invention and that the subject admits only one system of regulation. See *Sears, Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225, 228.

Affirmance of the trial court's decision is in direct conflict with Michigan law and the Federal patent system as it places direct restraints on the use of published patent-

able information and extends the protection granted under the Patent Laws to more than 17 years after publication.

The Trial court and Court of Appeals must be reversed.

APPENDIX L

AT A SESSION OF THE SUPREME COURT OF THE STATE OF MICHIGAN, Held at the Supreme Court Room, in the City of Lansing, on the 25th day of November in the year of our Lord one thousand nine hundred and eighty-five.

76216

Present the Honorable
G. MENNEN WILLIAMS,
Chief Justice
CHARLES L. LEVIN,
JAMES L. RYAN
JAMES H. BRICKLEY
MICHAEL F. CAVANAGH.
PATRICIA J. BOYLE
DOROTHY COMSTOCK RILEY,
Associate Justices

SC: 76216
COA: 75114
LC: 82-101709

LAURENE O. PATERSON and MULTI-TEC INCORPORATED, a Michigan corporation, jointly and severally,
Plaintiffs-Appellees,

v.

CHEMICAL ENGINEERING CORPORATION, an Indiana corporation, ROBERT M. WILFONG, RUDY WILFONG and LAWRENCE D. GORDON, jointly and severally,
Defendants-Appellants.

On order of the Court, the application for leave to appeal is considered, and it is DENIED, because we are not per-

suaded that the questions presented should be reviewed by this Court.

1119

STATE OF MICHIGAN—ss.

I, CORBIN R. DAVIS, Clerk of the Supreme Court of the State of Michigan, do hereby certify that the foregoing is a true and correct copy of an order entered in said court in said cause; that I have compared the same with the original, and that it is a true transcript therefrom, and the whole of said original order.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the seal of said Supreme Court at Lansing this 25th day of November in the year of our Lord one thousand nine hundred and eighty-five.

/s/ CORBIN R. DAVIS
Corbin R. Davis
Clerk

APPENDIX M

STATE OF MICHIGAN

IN THE SUPREME COURT

APPEAL FROM THE MICHIGAN COURT OF APPEALS
PER CURIAM BEFORE: P.J. ALLEN, J.H. GILLIS AND W.J. GIOVAN

SUPREME COURT NO. 76216
COURT OF APPEALS NO. 75114
LENAWEE CIRCUIT CT. No. 82-10-1709

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED, a Michigan corporation, jointly and severally,
Plaintiffs-Appellees,

v.

CHEMICAL ENGINEERING CORPORATION an Indiana corporation, ROBERT M. WILFONG, RUDY WILFONG and LAWRENCE D. GORDON, jointly and severally,
Defendants-Appellants.

VERIFIED MOTION TO RECONSIDER DENIAL OF APPLICATION FOR LEAVE TO APPEAL

* * *

Both the trial court and the Michigan Court of Appeals, held, in essence, that Plaintiffs' trade secrets did not terminate upon the publication of the information at issue,

but only when the publication became known to Defendants:

> "The publication of the patent application in Europe is, in any event, of limited significance since Defendants admitted that they did not learn of the publication until after the institution of the present lawsuit." (Paterson v. Chemical Engineering Corp., Michigan Court Of Appeals, Docket # 75114, rel'd 3-8-85, slip op at 11)

Thus, the Court of Appeals' decision changes Michigan law as to trade secrets and holds that whether or not the trial court considers secrecy as a necessary element of a trade secret is discretionary with the Court.

If this decision is allowed to stand, legal counseling as to what is and what is not a trade secret will be impossible, as the effect of publication on a trade secret cannot be determined without a holding by a trial court. A flood of litigation over non-secret "trade secrets" must be predicted.

3. The Michigan Court of Appeals decision allows an inventor of an invention patentable under the United States Patent Laws (35 U.S.C.) to recover for use of the invention under trade secret law contrary to Federal patent laws. (The information here alleged trade secret was first published in Plaintiffs' European patent application, and then published as issued U.S. Patent No. 4,430,228 and U.S. Patent No. 4,451,361[1]). Federal patent policy grants to an inventor the exclusive right to use his invention for a limited period of time in exchange for a complete publi-

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[1] U.S. Patent Application Nos, 103,322; 145,657; 210,923 which are predecessor applications for U.S. Patent No. 4,430,228 and U.S. Patent No. 4,451,361 are listed as corresponding applications in Plaintiffs' European published patent application which under European patent law insure that the publication is equivalent to the later publication of Plaintiff's U.S. Patent No. 4,430,228 and U.S. Patent No. 4,451,361

cation of his invention. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.ed.2d 315, 181 U.S.P.Q. 673, 678 (1974) Such publication is intended to terminate all remedies under State law, including trade secret law. *Kewanee Oil Co., supra* at 181 U.S.P.Q. 678. In this instance, Plaintiffs' European patent publication is equivalent in all respects to Plaintiffs' U.S. Patent publications.

If this decision is allowed to stand, inventors will have remedies for trade secret misappropriation under Michigan law after a publication equivalent to a patent publication for the use of the same information protected by the Federal patent laws. Such remedies are unique to the United States of America and preempted by Federal patent law.

4. The opinion of the Michigan Court of Appeals does not follow Michigan law as to the definition of a trade secret, changes Michigan law to allow a recovery for the use of a patentable invention both under Federal patent law and Michigan trade secret law, and changes Michigan law to allow a Plaintiff to recover duplicative compensatory damages, in amounts greater than the Plaintiffs' actual loss, on multiple theories of recovery. If this decision is allowed to stand, Defendants will be "punished" and Plaintiffs will recover amounts greater than necessary to compensate for Plaintiffs' loss.

APPENDIX N

AT A SESSION OF THE SUPREME COURT OF THE STATE OF MICHIGAN, Held at the Supreme Court Room, in the City of Lansing, on the 28th day of January in the year of our Lord one thousand nine hundred and eighty-six.

76216(48)

Present the Honorable

G. MENNEN WILLIAMS,
Chief Justice

CHARLES L. LEVIN,
JAMES H. BRICKLEY,
MICHAEL F. CAVANAGH,
PATRICIA J. BOYLE,
DOROTHY COMSTOCK RILEY,
DENNIS W. ARCHER,
Associate Justices

SC: 76216
COA: 75114
LC: 82-101709

LAURENE O. PATERSON and MULTI-TEC, INCORPORATED, a Michigan corporation, jointly and severally,
Plaintiffs-Appellees,

v

CHEMICAL ENGINEERING CORPORATION, an Indiana corporation, ROBERT M. WILFONG, RUDY WILFONG and LAWRENCE D. GORDON, jointly and severally,
Defendants-Appellants.

On order of the Court, the motion for reconsideration of this Court's order of November 25, 1985 is considered, and it is DENIED, because it does not appear that the order was entered erroneously.

121

STATE OF MICHIGAN—ss.

I, CORBIN R. DAVIS, Clerk of the Supreme Court of the State of Michigan, do hereby certify that the foregoing is a true and correct copy of an order entered in said court in said cause; that I have compared the same with the original, and that it is a true transcript therefrom, and the whole of said original order.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the seal of said Supreme Court at Lansing, this 28th day of January in the year of our Lord one thousand nine hundred and eighty-six.

/s/ CORBIN R. DAVIS Clerk.

APPENDIX G

SUPREME COURT OF THE UNITED STATES

No. A-794

CHEMICAL ENGINEERING CORPORATION, *et al.*,
Applicants,
LAURENE O. PATERSON and MULTI-TEC, INCORPORATED

ORDER EXTENDING TIME TO FILE PETITION FOR WRIT OF CERTIORARI

UPON CONSIDERATION of the application of counsel for the applicants,

IT IS ORDERED that the time for filing a petition for a writ of certiorari in the above-entitled cause be, and the same is hereby, extended to and including June 27, 1986.

/s/ SANDRA D. O'CONNOR
Associate Justice of the Supreme
Court of the United States

Dated this 18th
day of April, 1986.